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An Analysis of the United States-Cuba “Havana Club” Rum Case Before the World Trade Organization

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Abstract

The United States-Cuba “Havana Club” trademark dispute has been one of the more controversial and potentially divisive cases before the World Trade Organization (‘WTO’) to date. In that case, the European Union (‘EU’) filed a complaint against the United States alleging that a law which prohibited the registration and enforcement in the United States of a Cuban trademark, ‘Havana Club’ rum, which was licensed to the French company, Pernod-Ricard, S.A. (‘Pernod-Ricard’), was in violation of the WTO Agreement, which protected the intellectual property rights of WTO Members and their nationals. The case intertwined enforcement of the U.S. Cuban embargo; U.S. domestic politics, particularly in the state of Florida; U.S. national security concerns with U.S. trade obligations under the WTO; and U.S. relations with the EU. Essentially, the EU was asking the WTO to invalidate the U.S. law, which had been passed by the U.S. Congress to implement the Cuban embargo and to protect the national security of the United States. If the WTO rules that a country’s law violates a WTO Agreement, then that country has to change the law, pay compensation, or suffer retaliation. An adverse ruling by the WTO could have had the effect of nullifying the U.S. law and overturning the Federal Court of Appeals decision upholding it. This would have caused serious repercussions in the United States and could have led to calls for the United States withdrawal from the WTO, or at least to demands for fundamental changes to the WTO’s powers. It also could have led to a trade war with the EU. This Article will analyze the controversy before the U.S. courts and the WTO, and the structure of the WTO and its dispute settlement system. In particular, the Article will review the decision of the U.S. Court of Appeals for the Second Circuit, which upheld the U.S. law, and the ruling of the WTO Dispute Panel, which upheld and struck down portions of that law. The Article will also review the decision of the WTO Appellate Body, which affirmed the right of the United States not to enforce trademarks that had been confiscated, while also ruling that the U.S. law was discriminatory in its effect on foreigners, and thus, in violation of the WTO agreements. The Article will also discuss the political ramifications of the case for the United States, both internationally and domestically. The true importance of the Havana Club case is that it shows the interplay between domestic politics, international politics, and international trade law. This Article will argue that intellectual property rights and their international enforcement are dictated to a large degree by the interests of the intellectual property right holders and by politics, rather than by the application of a normative system of law adopted and applied on the basis of sound legal principles.

AN ANALYSIS OF THE UNITED STATES-CUBA "HAVANA CLUB" RUM CASE BEFORE THE WORLD TRADE ORGANIZATION

*Donald R. Dinan**

INTRODUCTION

The United States-Cuba "Havana Club" trademark dispute has been one of the more controversial and potentially divisive cases before the World Trade Organization ("WTO") to date. In that case, the European Union ("EU")¹ filed a complaint against the United States alleging that a law which prohibited the registration and enforcement in the United States of a Cuban trademark, "Havana Club" rum, which was licensed to the French company, Pernod-Ricard, S.A. ("Pernod-Ricard"), was in violation of the WTO Agreement, which protected the intellectual property rights of WTO Members and their nationals.

The case intertwined enforcement of the U.S. Cuban embargo; U.S. domestic politics, particularly in the state of Florida; U.S. national security concerns with U.S. trade obligations under the WTO; and U.S. relations with the EU. Essentially, the EU was asking the WTO to invalidate the U.S. law, which had been passed by the U.S. Congress to implement the Cuban embargo and to protect the national security of the United States. If the WTO rules that a country's law violates a WTO Agreement, then that country has to change the law, pay compensation, or suffer retaliation. An adverse ruling by the WTO could have had the effect of nullifying the U.S. law and overturning the Federal Court of Appeals decision upholding it. This would have caused serious repercussions in the United States and could have led to

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1. The official name for the European Union at the WTO is the "European Communities." For the sake of uniformity and understanding, this Article will use the name "European Union" or "EU" throughout.

calls for the United States withdrawal from the WTO, or at least to demands for fundamental changes to the WTO's powers. It also could have led to a trade war with the EU.

This Article will analyze the controversy before the U.S. courts and the WTO, and the structure of the WTO and its dispute settlement system. In particular, the Article will review the decision of the U.S. Court of Appeals for the Second Circuit, which upheld the U.S. law, and the ruling of the WTO Dispute Panel, which upheld and struck down portions of that law. The Article will also review the decision of the WTO Appellate Body, which affirmed the right of the United States not to enforce trademarks that had been confiscated, while also ruling that the U.S. law was discriminatory in its effect on foreigners, and thus, in violation of the WTO agreements.

The Article will also discuss the political ramifications of the case for the United States, both internationally and domestically. The true importance of the Havana Club case is that it shows the interplay between domestic politics, international politics, and international trade law. This Article will argue that intellectual property rights and their international enforcement are dictated to a large degree by the interests of the intellectual property right holders and by politics, rather than by the application of a normative system of law adopted and applied on the basis of sound legal principles.

I. *THE WTO, TRIPS, AND THE DSU*

The WTO was created by the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations in Marrakesh on April 15, 1994.² The signers agreed to submit the Agreement Establishing the World Trade Organization ("WTO Agreement")³ to their respective governments for adoption. The WTO formally came into being on January 1, 1995. The WTO was designed to conduct trade relations among its Member States and to administer the eighteen Multilateral Trade Agreements, also known as the Uruguay Round Agree-

2. Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Apr. 15, 1994, *LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND* vol. 1, 33 I.L.M. 1125 (1994).

3. Marrakesh Agreement Establishing the World Trade Organization, *LEGAL INSTRUMENTS — RESULTS OF THE URUGUAY ROUND* vol. 1, 33 I.L.M. 1144 (1994) [hereinafter *WTO Agreement*].

ments, which resulted from the Uruguay Round negotiations.⁴ By joining the WTO, one automatically joined all eighteen Uruguay Round Agreements. The United States joined the WTO through the Uruguay Round Implementation Act, which Congress passed on December 8, 1994.⁵

Among the eighteen Uruguay Round Agreements administered by the WTO is the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement" or "TRIPS.")⁶ The TRIPS Agreement was designed to provide a comprehensive system of intellectual property rights. It incorporates some of the more important intellectual property conventions, including the Paris Convention for the Protection Of Industrial Property (1967) ("Paris Convention")⁷ and the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention").⁸ It requires each country to meet minimum standards of intellectual property protection and to provide mechanisms for their enforcement.⁹

Two of the most important principles of the TRIPS Agreement are the "national treatment" and "most-favorite-nation" ("MFN") obligations it imposes on each WTO Member. National treatment requires each WTO Member to give nationals from other Member countries treatment that is no less favorable than that which it gives to its own nationals with regard to the protection of intellectual property rights.¹⁰ The MFN principle

4. See WTO Agreement, arts. II and III.

5. Uruguay Round Agreements Act of 1994, Pub. L. No. 103-465, 108 Stat. 4809.

6. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 1197 (1994) [hereinafter TRIPS].

7. Paris Convention for the Protection of Industrial Property, March 20, 1883, revised at Brussels on Dec. 14, 1900, revised at Washington on June 2, 1911, revised at the Hague on Nov. 6, 1925, revised at London on June 2, 1934, revised at Lisbon on Oct. 31, 1958, revised at Stockholm on July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305 [hereinafter Paris Convention].

8. Berne Convention for the Protection of Literary and Artistic Works of Sept. 9, 1886, completed at Paris on May 4, 1896, revised at Berlin on Nov. 13, 1908, revised at Berne on Mar. 20, 1914, revised at Rome on June 2, 1928, revised at Brussels on June 26, 1948, revised at Stockholm on July 14, 1967, revised at Paris on July 24, 1971, amended on Oct. 2, 1979, S. Treaty Doc. No. 27, 99th Cong., 2d Sess. (1986), 828 U.N.T.S. 221.

9. See Statement of Administrative Action—Agreement on Trade-Related Aspects of Intellectual Property Rights, URUGUAY ROUND TRADE AGREEMENTS Vol. 1, 103d Cong., 2d Sess., Hse. Doc. 103-316, Vol. 1, arts. II & III, at 981 (1994) [hereinafter SAA].

10. See *infra* Part III.E.

requires that each Member grant to nationals of other Member countries any advantage, favor, privilege or immunity given to nationals of any country with regard to the protection of intellectual property rights.¹¹

The Understanding on Rules and Procedures Governing the Settlement of Disputes (“DSU”) created a mechanism for dispute settlement procedures for each Uruguay Round Agreement, including the TRIPS Agreement.¹² The DSU is administered by the Dispute Settlement Body (“DSB”). The DSB is empowered to 1) establish Panels; 2) adopt Panel and Appellate Body reports; 3) oversee the implementation of Panel recommendations; and 4) authorize retaliation.¹³

All disputes under the Uruguay Round Agreements must be filed under the DSU before the DSB.¹⁴ If a Panel or the Appellate Body finds a violation of a WTO Agreement, it shall recommend that the respondent government bring its law into conformity with the respective agreement.¹⁵

If a respondent government fails to implement a Panel or Appellate Body recommendation to bring its law into conformity with an Uruguay Round Agreement, that government must enter into negotiations with the complaining party to reach an agreement on compensation.¹⁶ If the respondent government does not enter into negotiations for compensation, or fails to reach an agreement on compensation, then the complaining government can petition the DSB to authorize retaliation where the complaining government can suspend concessions (i.e., raise tariffs) against goods from the violating country in the amount of the terms of trade which are adversely affected by the violation.¹⁷

Therefore, if a country loses a WTO case, it may choose to change its law or to offer compensation instead. Conversely, if a violating country does nothing, the complaining country can re-

11. See SAA, *supra* n.9, at 981-82; see also *infra* Part III.F.

12. See Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, WTO Agreement, Annex 2, LEGAL INSTRUMENTS — RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 1226 (1994).

13. See *id.* art. 2.

14. See *id.* art. 23.

15. See *id.* art. 19.

16. See *id.* art. 22.

17. *Id.*

tialiate by suspending trade concessions equivalent to the trade it has lost because of the offending measure. It is within this legal framework that the EU brought its case against the United States law, which prohibited the registration and enforcement of the "Havana Club" trademark, and alleged that the law violated the TRIPS Agreement.

II. THE EVENTS LEADING UP TO THE WTO CASE

A. Facts — the Controversy

It all began when Pernod-Ricard, the French international spirits company, decided to enter into a joint venture with a Cuban State-owned entity for distribution of rum under the name Havana Club.¹⁸ Prior to the Cuban revolution in 1959, Havana Club was one of the largest selling rums in the world, with the United States being its major market. Havana Club was manufactured by Jose Arechabala, S.A. ("JASA"). The company was owned and controlled by the Arechabala family. In 1960, Fidel Castro confiscated most large private holdings in Cuba for State use. This included JASA. Neither JASA nor the Arechabala family received compensation for the assets the Cuban government seized.

In 1963, the United States imposed an embargo on Cuba that is still in force today. The embargo is enforced by the Cuban Assets Control Regulations ("CACR").¹⁹ In 1996, Congress enacted the Cuban Liberty and Democratic Solidarity Act ("LIBERTAD"),²⁰ which, among other things, codified regulations implementing the Cuban embargo.²¹ The Secretary of the

18. The following statement of facts is largely taken from the findings of fact in the decisions of the United States Court of Appeals for the Second Circuit and of the Panel Report of the WTO. See *Havana Club Holding, S.A. v. Galleon, S.A.*, 203 F.3d 116, 119-22 (2d Cir. 2000); see also World Trade Organization, *Report of the Panel-United States-Section 211 Omnibus Appropriations Act of 1998*, WT/DS/176/R, Doc. No. 01-3806 (Aug. 6, 2001), paras. 2.1-2.13. Cf. other renditions of facts by Elizabeth Olson, *A Ruling on Rum WTO Backs U.S. in Trademark Spat*, INT'L HERALD TRIBUNE, Aug. 7, 2001, at 6, col. 7; Daniel Pruzin, *Panel Established to Rule in Havana Club Dispute*, 17 INT'L TRADE REP. no. 38, 1470-71 (Sept. 28, 2000); 18 INT'L TRADE REP. 935-36 (Aug. 14, 2001).

19. The Cuban Assets Control Regulations ("CACR"), as amended 31 C.F.R. 515.101-909 (1999), promulgated pursuant to Section 5(b) of Trading of the Enemy Act of 1917, as amended 12 U.S.C. Sec. 95(a).

20. Cuban Liberty and Democratic Solidarity Act of 1996, Pub. L. No. 104-114, 110 Stat. 785 (1996) ("LIBERTAD").

21. See 22 U.S.C. Sec. 6032(h).

Treasury was given the authority to administer the Cuban embargo, which authority, in turn, was delegated by the Secretary to the Office of Foreign Assets Control ("OFAC").²²

Cubaexport, a State-owned enterprise, exported Havana Club rum, primarily to the communist countries in Eastern Europe and to the Soviet Union from 1972 to 1993. Cubaexport had registered the "Havana Club" trademark with the United States Patent and Trademark Office ("PTO") in 1976 under Registration No. 1,031,631. In 1993, Cubaexport decided to seek a foreign partner for its Havana Club rum business. In this regard, Havana Rum and Liquors, S.A. ("HR&L"), was formed under the laws of Cuba. Consequently, HR&L entered into a joint-venture agreement with Pernod-Ricard. In November 1993, Pernod-Ricard and HR&L entered into an agreement, which formed Havana Club Holding, S.A. ("HCH"), a Luxembourg corporation, and Havana Club International, S.A. ("HCI"), a Cuban corporation. Cubaexport then assigned its U.S. trademarks to HR&L, which, in turn, assigned them to HCH on June 22, 1994. HCH renewed the U.S. registration for the "Havana Club" mark for a term of ten years in 1996.

Meanwhile, in 1996, Bacardi & Company, Ltd., a Bermuda corporation, and Bacardi-Martini USA, Inc., a Delaware corporation (collectively "Bacardi") began to sell in the United States Havana Club-labeled rum, which was made in the Bahamas. Bacardi-Martini's predecessor-in-interest, Galleon S.A. had begun selling Havana Club rum manufactured in the Bahamas in the United States in 1995. In April 1997, Bacardi also bought the rights, if any, to the "Havana Club" mark from the Arechabala family. Pernod-Ricard, through HCH and HCI, filed suit in the United States District Court for the Southern District of New York, seeking an injunction against Bacardi and an enforcement of its "Havana Club" trademark in the United States.

Pernod-Ricard obviously wanted to protect its rights to the U.S. market if and when the forty-year Cuban embargo is lifted. The stakes continue to be fairly high. The current U.S. market for rum is approximately fifteen million cases a year.²³ Bacardi, for its part, wanted to have the rights to Havana Club in the United States, and more importantly, to protect its other brands,

22. See 31 C.F.R. Sec. 515.802.

23. See Pruzin, *supra* n.18, at 1471.

including its flagship brand, Bacardi rum, from foreign competition by Pernod-Ricard.

While the suit in the Southern District was pending, a new twist to the case developed. At the end of the Congressional session, Congress tacked on to the 1998 Omnibus Appropriations Act ("OAA")²⁴ without hearing a provision known as Section 211. This bill was attached to the appropriations bill as a result of heavy lobbying by Bacardi and was designed to stop Pernod-Ricard from being able to enforce its rights to the trademark "Havana Club" in the United States.

Section 211 of the OAA deals with trademarks, trade names, and commercial names that are the same or substantially similar to trademarks, trade names and commercial names that are used in connection with businesses or assets that were confiscated by the Cuban government on or after July 1, 1959. It is intended to prevent the registration and enforcement in the United States of trademarks confiscated by Cuba.

Section 211(a)(1) prevents the registration or renewal of a confiscated trademark by prohibiting a license authorizing the transfer of such trademarks, or the payment of fees to register or renew them, unless the original owner of the mark, or the bona fide successor-in-interest, expressly consents.²⁵ Section 211(a)(2) prohibits U.S. courts from enforcing these trademarks,²⁶ and Section 211(b) prohibits U.S. courts from enforcing

24. The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999, Pub. L. No. 105-277, 112 Stat. 2681 (1998) [hereinafter OAA]. OAA was passed to fund the federal government and to prevent a government shut down.

25. OAA Section 211 (a)(1) reads:

Notwithstanding any other provision of law, no transaction or payment shall be authorized or approved pursuant to Section 515.527 of title 31, Code of Federal Regulations, as in effect on September 9, 1998, with respect to a mark, trade name, or commercial name that is the same as or substantially similar to a mark, trade name, or commercial name that was used in connection with a business or assets that were confiscated unless the original owner of the mark, trade name, or commercial name, or the bona fide successor-in-interest has expressly consented.

Id.

26. *Id.*

OAA Section 211 (a)(2) reads:

No U.S. court shall recognize, enforce or otherwise validate any assertion of rights by a designated national based on common law rights or registration obtained under such Section 515.527 of such a confiscated mark, trade name, or commercial name.

Id.

ing any treaty rights, which require recognition and enforcement of these trademarks.²⁷

B. *The District Court's Ruling*

In December 1996, HCH and HCI filed their lawsuit for trademark infringement against Bacardi, alleging violation of Sections 32 and 43(a) of the Lanham Act.²⁸ Bacardi alleged that the license HCH received from OFAC authorizing the assignments of the U.S. trademarks was obtained by fraud.

On October 5, 1995, OFAC received an application for a specific license authorizing the 1994 assignments of the "Havana Club" trademark from Cubaexport to HR&L, and then to HCH. On November 13, 1995, OFAC issued a license to Cubaexport, which approved the two assignments and authorized all necessary transactions related to the assignments of the marks.

In March 1997, the District Court ruled that Bacardi did not have standing to challenge OFAC's license and that OFAC's decision to grant the specific license was unreviewable.²⁹ On April 17, 1997, however, OFAC issued a notice on revocation, which revoked this license, retroactive on the date of issuance. OFAC stated that its determination to revoke the license was the result of acts and circumstances that had come to its attention. It should be noted that this revocation came one month after the District Court ruled that Bacardi could not challenge the OFAC license.

Subsequently, in August 1997, the District Court ruled that HCH had no right to the "Havana Club" trademark in the United States because the specific license to assign the mark had been nullified by OFAC, and because the CACR's general license

27. OAA Section 211 (b) reads:

No U.S. court shall recognize, enforce or otherwise validate any assertion of treaty rights by a designated national or its successor-in-interest under Sections 44 (b) or (e) of the Trademark Act of 1946 (15 U.S.C. 1126 (b) or (e)) for a mark, trade name, or commercial name that is the same as or substantially similar to a mark, trade name, or commercial name that was used in connection with a business or assets that were confiscated unless the original owner of such mark, trade name, or commercial name, or the bona fide successor-in-interest has expressly consented.

Id.

28. *Id.* See also 15 U.S.C. Secs. 1114, 1125(a).

29. See *Havana Club Holding, S.A. v. Galleon, S.A.*, 961 F. Supp. 498 (S.D.N.Y. 1997) ("Havana Club").

authority under 31 C.F.R. sec. 515.527(a) did not authorize the assignment.³⁰

The Court, however, granted HCH and HCI the right to amend the complaint to assert rights to the "Havana Club" trade name under Sections 44(g) and 44(h) of the Lanham Act, as amended,³¹ and Chapter III of the General Inter-American Convention for Trademark and Commercial Protection of February 20, 1929 ("IAC").³² Both Cuba and the United States are signatories to the IAC.³³ Congress, at the urging of Bacardi, passed Section 211 of the OAA after this ruling by the District Court. The law was obviously crafted to defeat Pernod-Ricard's claims. This specificity of its target was to prove to be the undoing of U.S. position before the WTO.³⁴

Subsequently, the District Court found that HCH, a Luxemburg corporation, could not claim rights to trademark protection under the IAC because Luxemburg was not a signatory to the IAC.³⁵ The District Court also ruled that it was prohibited from enforcing HCI's trade name rights under the IAC by 211(b) of the OAA.³⁶

The District Court concluded that HCI lacked standing to assert its Lanham Act claims because it was barred from selling its rum in the United States by the Cuban embargo and therefore, could not suffer commercial injury because of Bacardi's action. The Court also found that any injury HCI might suffer once the embargo was lifted was too remote to grant HCI standing.³⁷

HCH and HCI appealed.

C. *The Second Circuit's Ruling*

The United States Court of Appeals for the Second Circuit affirmed the District Court's ruling, concluding that the Cuban

30. *See* Havana Club Holding, S.A. v. Galleon, S.A., 974 F. Supp. 302, 306-07 (S.D.N.Y. 1997) ("Havana Club II").

31. 15 U.S.C. Secs. 1126(g) and (h).

32. 46 Stat. 2907, 2926-30 [hereinafter IAC].

33. *See id.* at 2907.

34. *See infra* Parts IV.E-F.

35. *See* Havana Club Holding, S.A. v. Galleon, S.A., 62 F.Supp.2d 1085, 1089 (S.D.N.Y. 1999) ("Havana Club III").

36. *See id.* at 1091-95.

37. *See id.* at 1099.

embargo barred assignment to HCH of the “Havana Club” trademark registered in the United States; that it was precluded by Section 211 of the OAA from enforcing whatever rights HCI might have to trademark protection under the IAC; and that HCI lacked standing to assert the false advertising and unfair competition claims under the Lanham Act.³⁸

The Court noted that in order to prevail on its claim of trademark infringement, HCH had to show that it had an ownership interest in the mark. HCH asserted its rights to the mark through the assignment from the Cuban companies. HCH recognized, however, that in order to have enforcement rights in the United States, it had to find authority for the assignments under U.S. law or the Cuban embargo would render them void.³⁹

In its original complaint, HCH relied on the specific license issued by OFAC in November 1995, which authorized the assignments.⁴⁰ However, OFAC revoked this specific license in 1997.⁴¹ After that, HCH had to rely on the general license authority in 31 C.F.R. Section 515.527, which states: “[t]ransactions related to the registration and renewal in the United States Patent and Trademark Office [. . .] in which [. . .] a Cuban national has an interest are authorized.”⁴² This provision was added in 1995, more than a year after the “Havana Club” trademark was assigned to HCH.⁴³ HCH argued that even though OFAC revoked the specific license, HCH could avail itself of the general license.⁴⁴

The Court disagreed. In its analysis, the Court found that the assignments were not “related to” the registration and renewal of a trademark.⁴⁵ The Court referred to 31 C.F.R. Section

38. *Havana Club Holding, S.A. v. Galleon, S.A.*, 203 F.3d 116, 119 (2d Cir. 2000) [hereinafter *Havana Club IV*].

39. *Id.* at 122.

40. *Id.*

41. *Id.*

42. *Id.* at 122-23 (*quoting* 31 C.F.R. Sec. 515.527). A general authorization grants an automatic license to do the requested approved act or transaction. *See* 31 C.F.R. Sec. 515.527(a)(1). No application for the license is necessary. *Id.* A specific license to do a requested act or transaction is granted only upon application and must be “specifically” granted by OFAC. *See* 31 C.F.R. Sec. 501.801(b).

43. *Havana Club IV*, 203 F.3d at 123.

44. *See id.*

45. *See id.*

515.502(a), which provides: “No [. . .] authorization contained in this part [. . .] shall be deemed to authorize or validate any transaction effected prior to the issuance thereof, unless such [. . .] authorization specifically so provides.”⁴⁶ Both Sections 515.527 and 515.502(a) are part of the CACR. The assignment to HCH occurred in 1994, which was prior to the issuance of Section 515.527.⁴⁷ Because there was no retroactivity in Section 515.527, and certainly no specific authorization as to the “Havana Club” trademark, the Court found that Section 515.502(a) prevented the transfer and that HCH could not avail itself of the general license provision.⁴⁸

The Court further found that Section 515.527 was an exception to the broad prohibitions of the Cuban embargo. It stated: “[i]f every assignment of a trademark for which the registration was subsequently renewed, were considered a transaction ‘related to’ trademark renewal, the exception created by Section 515.527(a)(1) would swallow much of the general rule of the Cuban embargo prohibiting transfers of trademarks.”⁴⁹ The Court noted that OFAC, the agency charged with implementing the regulations and enforcing the embargo, interpreted Section 515.527 as not authorizing assignments.⁵⁰

HCH also argued that a failure to recognize its rights as an assignee of the U.S. trademark would deny rights guaranteed by Article 11 of the IAC,⁵¹ which provides:

The transfer of the ownership of a registered or deposited mark in the country of its original registration shall be effective and shall be recognized in the other Contracting States, provided that reliable proof be furnished that such transfer has been executed and registered in the accordance with the internal law of the State in which such transfer took place. Such transfer shall be recorded in accordance with the legislation of the country in which it is to be effective.⁵²

The Court ruled, however, that the Cuban embargo abrogated the IAC rights that Article 11 would otherwise give concerning

46. *Id.* See also 31 C.F.R. Sec. 515.502(a).

47. *See id.*

48. *See* Havana Club IV, 203 F.3d at 123.

49. *See id.*

50. *Id.* at 123-24.

51. *Id.* at 124.

52. IAC, at 2922-24.

Cuba.⁵³ The Court stated:

With respect to the Cuban embargo, the purpose of Congress could not be more clear. Congress wished to prevent any Cuban national or entity from attracting hard currency into Cuba by selling, assigning, or otherwise transferring rights subject to United States jurisdiction. The CACR make this clear, and the LIBERTAD Act, by codifying the CACR, provides unmistakable evidence of Congressional purpose.⁵⁴

The Court continued to note that the intent of Congress was

[t]o create a “chilling effect” that will deny the current Cuban regime venture capital, discourage third-country nationals from seeking to profit from illegally confiscated property, and help preserve such property until such time as the rightful owners can successfully assert their claims [. . .] In other words, Congress sought to discourage business arrangements like Cubaexport’s joint venture with Pernod-Ricard, the venture that led to both the creation of HCH and the assignments of a trademark confiscated by the Castro regime from JASA.⁵⁵

The Court made reference to Section 211(a)(1) to further support its ruling. The Court stated that Congress explicitly restricted Section 515.527 not to authorize or approve any transaction with respect to a mark or trade name that was confiscated unless the original owner of the mark expressly consented.⁵⁶ Therefore, the Court found that HCH had no enforceable rights to the “Havana Club” trademark.⁵⁷

Next, the Court addressed HCI’s claims to rights to the “Havana Club” trade name under the IAC.⁵⁸ The IAC provides that any manufacturer in a Member country who uses a particular trade name may enjoin the use of that name in another coun-

53. *See* Havana Club IV, 203 F.3d at 124.

54. *Id.*

55. *Id.* at 125 (quoting H. Rep. No. 104-202, 25 (1996), reprinted in 1996 United States Code Congressional and Administrative News (“U.S.C.C.A.N.”) 527, 530).

56. *Id.* at 126.

57. Havana Club IV, 203 F.3d at 126. The Court did not rely on Section 211(a)(1) to invalidate the 1994 assignments because of the possible retroactive effect, but only to indicate that interpreting Section 515.527 not to authorize the assignment was fully consistent with Congressional intent not to permit assignments of confiscated trademarks without the consent of the original owner. *Id.*

58. *Id.*

try.⁵⁹

The Court ruled that Section 211(b) specifically provided that

[n]o U.S. court shall recognize, enforce or otherwise validate any assertions of treaty rights by a designated national or its successor-in-interest under Sections 44(b) or (e) of the Trademark Act of 1946 [. . .] for a mark, or trade name, or commercial name [. . .] that was used in connection with a business or assets that were confiscated unless the original owner of such mark, trade name, or commercial name [. . .] has expressly consented.⁶⁰

Therefore, the Court ruled that it did not have jurisdiction to hear HCI's claim.⁶¹

Finally, the Court found that HCI did not have standing to assert a false advertising claim or an unfair competition claim under the Lanham Act because it had no protectable interests in the United States and had no realistic expectation of a protectable interest in the future.⁶² The Court stated that HCI had failed to show any potential for a commercial or competitive injury.⁶³

The Court, likewise, summarily rejected HCI's argument that it was harmed because Americans who could legally purchase Havana Club in Havana would be confused by Bacardi rum's bearing the label "Havana Club."⁶⁴ The Court succinctly found that the surveys on which HCI relied were endemically flawed.⁶⁵

D. *Sequence of Events*

The sequence of events bears some instruction on how a party may use the interplay between national law and the WTO to attempt to achieve a desired result.⁶⁶ HCH received the as-

59. See IAC, at 2928-30.

60. Havana Club IV, 203 F.3d at 127 (*quoting* Sec. 211). Section 211 refers to the Section of the Lanham Act, which protects rights to trade names and commercial names arising under treaty and provides that these rights may be enforced under U.S. law. See 15 U.S.C. Secs. 1126(b) and (e).

61. See *id.*

62. See *id.* at 130-34.

63. See *id.*

64. See *id.* at 131.

65. See *id.*

66. See *id.* at 119-22 (noting dates of following legal actions).

signment to the trademark on January 10, 1994, and re-registered it with the PTO in June 1996 for an additional ten-year period. HCH and HCI filed their infringement suit in December 1996 after Bacardi bought Galleon and began importing rum into the United States under the "Havana Club" name. Bacardi bought the rights to the trademark from the Arechabala family in April 1997. The U.S. Congress passed Section 211 of the OAA on October 21, 1998. It was only after HCH and HCI filed suit, that Bacardi engaged in the activities that would give rise to the WTO case — buying the rights from the Arechabala family and getting Congress to pass Section 211. The District Court ruled against HCH and HCI on June 28, 1999. The EU requested consultations under the DSU on July 7, 1999.⁶⁷

Therefore, we see that the EU waited until the District Court ruled before it filed its request for consultations, rather than seeking consultations immediately after Section 211 was passed. This indicates at least some interest by the EU to see how the Court would rule before commencing the WTO challenge to the law.

Consultations occurred between the EU and the United States on September 13, 1999 and December 13, 1999. On February 4, 2000, the Second Circuit issued its ruling, upholding the District Court decision. It was only afterwards, on June 30, 2000, that the EU requested the establishment of a Panel under the DSU, even though it had the right to do so almost ten months earlier. Again, it is submitted that the timing is not coincidental. Rather, one sees the EU taking each procedural step under the DSU's procedures only after receiving the respective Court rulings.⁶⁸

67. See World Trade Organization, *United States — Section 211 Omnibus Appropriation Act of 1998 — Report of the Panel*, WT/DS 176/R, Doc. No. 01-3806, paras. 1.1-1.9 (Aug. 6, 2001), available at http://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm [hereinafter *European Communities v. United States*]. Generally, the first step in a WTO case under the DSU is to request consultations with the government whose law is in dispute. See DSU, art. 4. A country must wait at least sixty days after it makes the request for consultations before it can request the establishment of a dispute Panel and submit in writing its specific charges. See *id.* arts. 3 and 6.

68. HCH and HCI did apply for a *writ of certiorari* before the U.S. Supreme Court after the Second Circuit's ruling and before the EU requested the establishment of the Panel. The EU requested the Panel, however, before waiting for the Supreme Court's ruling on the *writ*. This is not necessarily inconsistent with the described behavior because the chances of the Supreme Court granting a *writ of certiorari* in any case are very small, and it probably seemed that waiting for the inevitable Supreme Court ruling was

III. THE PANEL REPORT

The EU and the United States were unable to reach an agreement during their consultations. Therefore, on June 30, 2000, the EU requested the establishment of a Panel under Article 6 of the DSU and Article 64.1 of the TRIPS Agreement, alleging that Section 211 of the OAA was in violation of the TRIPS Agreement.⁶⁹ On November 26, 2000, DSB established a Panel to adjudicate the dispute.

In its Complaint to the DSB, the EU alleged that:

1. Section 211(a)(1) of the OAA is inconsistent with Article 2.1 of the TRIPS Agreement in conjunction with Article 6quinquies A(1) of the Paris Convention (1967) and Article 15.1 of the TRIPS Agreement;
2. Section 21(a)(2) of the OAA is inconsistent with Article 2.1 of the TRIPS Agreement in conjunction with Articles 2(1), 6bis (1) and 8 of the Paris Convention (1967), and Articles 3.1, 4, 16.1, and 42 of the TRIPS Agreement; and
3. Section 211(b) of the OAA is inconsistent with Article 2.1 of the TRIPS Agreement, in conjunction with Articles 2(1), 6bis (1) and 8 of the Paris Convention (1967), and Articles 3.1, 4, 16.1, and 42 of the TRIPS Agreement.⁷⁰

The EU said that these measures nullified and impaired its rights and requested that the Panel find that the United States was in violation of its obligations under the TRIPS Agreement, and recommend that the United States bring its domestic legislation into conformity with its obligations under the TRIPS Agreement.

In its response, the United States argued that Section 211 of the OAA was not inconsistent with its obligations under the TRIPS Agreement and requested that the Panel reject the claims of the EU in their entirety.⁷¹

an unnecessary delay. This reasoning would prove correct; the Supreme Court denied *certiorari* on October 2, 2000. See *Havana Club Holding S.A. v. Bacardi and Co. Ltd.*, 531 U.S. 918 (2000).

69. See DSU, art. 6. See also TRIPS, art. 64.1.

70. *European Communities v. United States*, *supra* n.67, at para. 3.1. See *infra* Parts III.A-G (discussing nature and substance of each of these TRIPS Sections and, by reference, Paris Convention provisions and analysis).

71. See *European Communities v. United States*, *supra* n.67, para. 3.4.

A. Scope of the TRIPS Agreement — Trade Names

First, the Panel turned to the question of whether trade names, as opposed to trademarks, were covered by the TRIPS Agreement. Section 211 refers to “mark, trade name, or commercial name.”⁷² Trade name is defined under the Lanham Act as “any name used by a person to identify his or her business or vocation.”⁷³ The Panel noted that the United States, in its submissions, stated that under the Lanham Act trade name and commercial name are synonymous. The Panel adopted this representation, and used the term “trade name” in its ruling for both.⁷⁴

Section 2.1 of the TRIPS Agreement incorporates by reference the Paris Convention. The EU alleged that Sections 211(a)(2) and (b) were inconsistent with Article 8 of the Paris Convention. Article 8 provides that trade names are to be protected by signatories of the Convention.⁷⁵ Therefore, the Panel first determined whether trade names were covered by the TRIPS Agreement.

The term “intellectual property” is defined in Article 1.2 of the TRIPS Agreement as follows: “For the purposes of this Agreement, the term intellectual property refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II [of the TRIPS Agreement].”⁷⁶ Sections 1 through 7 of Part II list the following categories of intellectual property: copyrights, trademarks, geographical indications, industrial designs, patents, layout designs, integrated circuits, and protection of undisclosed information.⁷⁷ The term “trade name” does not appear on this list. The Panel found that the list in Sections 1 through 7 of Part II was all-inclusive. It based this decision on the language in Article 1.2 — “all categories.” The Panel concluded that trade names and commercial names were not covered by the TRIPS Agreement because they were not one of the categories listed. Therefore, Sections 211(a)(2) and (b) were not inconsistent with Article 2.1 of the TRIPS Agreement in con-

72. OAA, Sec. 211.

73. 15 U.S.C. Sec. 1126.

74. See *European Communities v. United States*, *supra* n.67, para. 8.21.

75. See Paris Convention, art. 8.

76. TRIPS, art. 1.2.

77. TRIPS, Part II.

junction with Article 8 of the Paris Convention.⁷⁸

B. *Article 15.1 of the TRIPS Agreement and Article 6quinquies A(1) of the Paris Convention — Protectable Subject Matter*

Turning to trademarks, the Panel first analyzed whether Section 211(a)(1) violated Section 15.1 of the TRIPS Agreement.⁷⁹ Section 211(a)(1) provides that no transaction or payment shall be authorized or approved pursuant to 31 C.F.R. Section 515.527 with respect to a mark that was used in connection with the business or assets that were confiscated, unless the original owner of the mark or the bona fide successor-in-interest has expressly consented. Section 515.527 is the portion of the OFAC Regulations, which provides for a general license for transactions related to the registration and renewal of trademarks in the PTO. This general license allows for the payment of the necessary statutory fees for these registrations. Section 211(a)(1) prohibits this general license from applying to transactions or payments for marks, which had been confiscated by the Government of Cuba, unless the original owner or its successor-in-interest has consented.⁸⁰

If OFAC did not issue a specific license to allow the payment related to the registration or renewal of the trademark, this, in conjunction with Section 211(a)(1), would prevent registration or renewal of a mark because the statutory fees could not be paid. The EU argued that such a situation had the effect of preventing Cuban nationals from registering marks in the United States as required by Article 15.1 of the TRIPS Agreement.

The Panel noted, however, that Section 211(a)(1) does not deny trademark registrations as such. It denies trademark registrations to those who are not deemed to be proper owners under

78. See *European Communities v. United States*, *supra* n.67, paras 8.23-8.27.

79. TRIPS Article 15.1 reads:

Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, shall be eligible for registration as trademarks.

Id.

80. See OAA, Sec. 211 (a)(1), *supra* n.25. See also *European Communities v. United States*, *supra* n.67, paras. 8.59-8.60.

U.S. law. Section 211(a)(1) would not bar the original owner, the successor-in-interest, or an individual who has the consent of either party to register the trademarks that are used in connection with confiscated assets. Those individuals would be considered proper owners under Section 211(a)(1).⁸¹ The Panel concluded by stating that it found that Section 211 (a)(1)

[i]s not inconsistent with Article 15.1 of the TRIPS Agreement because the term “other grounds,” as used in Article 15.2 of the TRIPS Agreement,⁸² may include a measure that denies trademark registration on the basis that the applicant is not the owner under national law[,] and Section 211(a)(1) is a measure that deals with the ownership of the trademarks used in connection with confiscated assets.⁸³

Article 6*quinquies* (a)(1) of the Paris Convention provides that “[e]very trademark duly registered in the country of origin shall be accepted for filing and protected as is in other countries of the Union [. . .].”⁸⁴ The Panel rejected the EU’s contention that Section 211(a)(1) violated this Article for the same reason it rejected the EU’s claim that the Section violated Article 15.1. The Panel found that Section 211(a)(1) was a measure that regulated ownership rather than the form of a trademark or its registration.⁸⁵

*C. Articles 42 and 16.1 of the TRIPS Agreement —
Access to U.S. Courts*

Next, the EU argued that by expressly denying the availability of U.S. courts to enforce the rights of registered U.S. trademark holders, Section 211(a)(2) violated the U.S. obligations under Article 42 of the TRIPS Agreement by denying trademark holders fair and equitable procedures to enforce their marks.⁸⁶ Article 42 provides that “[M]embers should make available to the right holders civil judicial procedures concerning the en-

81. See *European Communities v. United States*, *supra* n.67, para. 8.65.

82. TRIPS Article 15.2 reads:

Paragraph 1 shall not be understood to prevent a Member from denying registration of a trademark *on other grounds*, provided that they do not derogate from the provisions of the Paris Convention (1967).

Id. (*emphasis added*).

83. *European Communities v. United States*, *supra* n.67, para. 8.70.

84. Paris Convention, art. 6*quinquies* A (1).

85. See *European Communities v. United States*, *supra* n.67, para. 8.89.

86. See *id.* para. 8.90.

forcement of any intellectual property right *covered by this Agreement*.”⁸⁷

The EU contended that denying trademark owners the right to have their marks enforced by a U.S. court was tantamount to depriving them of their rights altogether because, as in the case of most WTO Members, trademarks were primarily enforced in the United States in the civil judicial system.⁸⁸ The United States retorted that if the purported intellectual property right is not “covered by this Agreement,” i.e., one is not the owner, Members are under no obligation to enforce that right through their judicial systems.⁸⁹

The Panel disagreed with the United States. It found that under the U.S. law, the registration of a trademark confers a *prima facie* presumption of the registrant’s ownership of the registered trademark. The person who enjoys the presumption of being the owner of a trademark must be entitled to some level of protection of its rights.⁹⁰ The language of Section 211(a)(2)— “[N]o U.S. court shall recognize, enforce or otherwise validate any assertion of rights” — had the effect of preventing the trademark owner from substantiating its rights and, therefore, violated Article 42.⁹¹

The EU also argued that the denial of access to U.S. courts also violated Article 16.1, which states: “[t]he 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 [. . .].”⁹² The EU argued that because the enforcement scheme in the United States was through the civil courts, to be denied access to those courts was to be denied the right to enforce one’s marks against unauthorized third-party use. Thus, Section 211(a)(2) violated Article 16.1 as well as Article 42.⁹³

In contrast to its ruling on Article 42, the Panel found that Section 211(a)(2) did not violate Article 16.1. The Panel concluded that if owners could prove that they were the rightful

87. TRIPS, art. 42 (*emphasis added*).

88. See *European Communities v. United States*, *supra* n.67, para. 8.90.

89. *Id.* para. 8.93.

90. See *id.* para. 8.99.

91. See *id.* para. 8.100.

92. See *id.* paras. 8.103, 8.106. See also TRIPS, art. 16.1.

93. See *id.* para. 8.103.

owners of the trademark, then there was nothing in Section 211(a)(2) which would bar them access to the courts.⁹⁴ The Panel pointed out that nothing in Section 211(a)(2) precluded a U.S. court from making a determination of whether one was the rightful owner. Because the rightful owner would have access to the U.S. courts to enforce its marks, Section 211(a)(2) did not violate Article 16.1 of the TRIPS Agreement.⁹⁵

D. *Article 6bis(1) of the Paris Convention*

The next issue addressed was whether Section 211(a)(2) violated Article 2.1 of the TRIPS Agreement in conjunction with Article 6bis(1) of the Paris Convention. Article 6bis(1) of the Paris Convention provides that a Member of the Union can refuse or cancel the registration, and prohibit the use, of a trademark, which is liable to create confusion with a mark “considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods.”⁹⁶ The Panel found that there was nothing in Section 211(a)(2) that dealt with the refusal or cancellation of registrations and that the EU did not adequately explain or present evidence that was sufficient to demonstrate how Section 211(a)(2) was inconsistent with the U.S. obligations under Article 6bis. The Panel summarily denied this portion of the EU Complaint.⁹⁷

E. *Article 3.1 of the TRIPS Agreement and Article 2(1) of the Paris Convention — National Treatment*

The Panel addressed the EU’s argument that Section 211(a)(2) was inconsistent with the national treatment provisions of Article 3.1 of the TRIPS Agreement and Article(2)(1) of the Paris Convention.⁹⁸ National treatment is the principle that one must treat the nationals of other signatories no less favorably than one treats its own nationals.⁹⁹ The EU argued that Section 211(a)(2) applies to “designated nationals,” which are basi-

94. *See id.* para. 8.111.

95. *See id.* para. 8.112.

96. *Id.* para. 8.115.

97. *See id.* para. 8.116.

98. *See id.* para. 8.124-8.140.

99. *See id.* para. 8.125.

cally Cuba and Cuban nationals. The EU further argued that the language in Section 211 referring to successors-in-interest, referred only to nationals of a foreign country and not to U.S. nationals.¹⁰⁰

Therefore, the EU contended that the statute treated “designated nationals” and nationals of foreign countries less favorably than U.S. nationals. The United States admitted in its submissions that Section 211(a)(2) prohibited U.S. courts from recognizing or enforcing any right in a confiscated trademark by a designated national (Cuban or Cuban national) or a national of a foreign country, who is the successor-in-interest to the designated national. The United States stated, however, that the statutory language did not include U.S. nationals when describing successors-in-interest because a U.S. national can not become a successor-in-interest to a “designated national” without first obtaining a specific license from OFAC.¹⁰¹ OFAC has never issued such a license. The law also prohibited any transaction by which a U.S. national might become a successor-in-interest through a Cuban confiscating entity.¹⁰²

The Panel began its discussion by noting that national treatment is one of the most important principles in international agreements on intellectual property rights.¹⁰³ The principle of national treatment has been a requirement since the inception of the Paris Convention in the late 19th Century.¹⁰⁴ Section 211(a)(2) would seem to clearly violate this most basic principle of intellectual property agreements because, on its face, it only refers to foreign nationals and does not refer to U.S. nationals. However, the Panel took into consideration that a U.S. national, under law, could never be a successor-in-interest without a specific license from OFAC, and OFAC had never issued such a license.¹⁰⁵ Therefore, the effect on U.S. citizens and foreign nationals of Section 211(a)(2) was the same, i.e., neither could have their rights enforced by a U.S. court for the confiscated trademarks.¹⁰⁶ Thus, the Panel found that there was no less

100. *See id.* para. 8.123-8.124.

101. *See id.* para. 8.124.

102. *See id.* *See also* 31 C.F.R. Sec. 515.201.

103. *See id.* para. 8.125.

104. *See id.*

105. *See id.* paras. 8.124, 8.140.

106. *See id.* paras. 8.135, 8.140.

favorable treatment of foreign nationals, and no violation of the national treatment provisions of the TRIPS Agreement or the Paris Convention.¹⁰⁷

F. *Article 4 of the TRIPS Agreement — Most-Favorite-Nation*

For the same reasons, the Panel concluded that there was no violation of the MFN provisions of the TRIPS Agreement contained in Article 4.¹⁰⁸ MFN treatment requires that “with regard to the protection of intellectual property, any advantage, favor, 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.”¹⁰⁹

G. *Consistency of Section 211(b) with the TRIPS Agreement*

Section 211(b) basically parallels the access to U.S. courts provision of Section 211(a)(2), except that it applies to treaties.¹¹⁰ The purpose of Section 211(b) is that a confiscating entity or its successor-in-interest cannot claim ownership rights to a trademark in the United States by virtue of its foreign registration.¹¹¹ Congress specifically had the IAC in mind when it passed Section 211(b). This was the treaty right invoked by HCH and HCI in their complaint before the Southern District. The United States argued that for the reasons Section 211(a)(2) was not inconsistent with the TRIPS Agreement, so, too, was Section 211(b) not inconsistent.¹¹²

The EU claimed that Section 211(b) was inconsistent with Article 16.1 of the TRIPS Agreement, for the same reasons it claimed Section 211(a)(2) violated it.¹¹³ The Panel found that the EU’s assertions concerning 211(b) were vague and that the EU did not meet its burden of proving that Section 211(b) violated Article 16.1 of the TRIPS Agreement.¹¹⁴ For the same reason, i.e., that the EU did not meet its burden of proof, the Panel found that Section 211(b) did not violate Article 42 of the TRIPS

107. *See id.* para. 8.140.

108. *See id.* para. 8.148.

109. *See id.* para. 8.144. *See also* TRIPS, art. 4.

110. *See id.* para. 8.149.

111. *See id.* para. 8.150.

112. *See id.*

113. *See id.* para. 8.159.

114. *See id.* para. 8.153.

Agreement; Article 2.1 of the TRIPS Agreement in conjunction with Article 8 of the Paris Convention; or Article 6bis(1) of the Paris Convention.¹¹⁵ The Panel made the same rulings regarding Article 3.1 of the TRIPS Agreement and Article 4 of the TRIPS Agreement.¹¹⁶ Taken together, the Panel found no violation by Section 211(b) of the TRIPS Agreement.

H. *Conclusions and Appeal*

Thus, the Panel found only one violation of the TRIPS Agreement by the United States, the violation of Article 42. The EU lost eleven out of twelve arguments.

Among the Panel's significant rulings was the assertion that a country has the right to deny trademark registration and enforcement to marks, which are confiscated. This represented a significant victory for the United States. It not only upheld the U.S. basic position that it had the right to deny trademark enforcement to confiscated marks, but it also affirmed that the U.S.-Cuban embargo, as further enforced by Section 211, was not in violation of the WTO Agreements, including the TRIPS Agreement. A potential foreign policy battle between the United States on the one hand, and the EU and the WTO on the other, was averted. There would have been a major political crisis had the WTO struck down a portion of the U.S.-Cuban embargo. A contrary ruling could possibly have sparked a trade war between the United States and the EU, and may even have threatened United States participation in the WTO.

The Dispute Panel, however, did rule that Section 211 violated the TRIPS Agreement by not allowing access to U.S. courts for trademark holders to settle trademark disputes. This meant that the United States would have to change its law to allow HCH and HCI the right to enforce their marks in the U.S. courts, or pay compensation. The ruling, in effect, would repeal Section 211(a)(2), and have the *de facto* effect of nullifying the Second Circuit's ruling.

The DSU allows the losing party to appeal the ruling of a Panel to the Appellate Body.¹¹⁷ The Appellate Body is a standing body of the DSB comprised of seven members. Appellate

115. *See id.* paras. 8.164, 8.173.

116. *See id.* paras. 8.173, 8.176.

117. *See* DSU, art. 8.

Panels are usually comprised of three persons. The Appellate Body has sixty days to rule after the Panel's ruling is made public. Both the United States and the EU appealed the ruling of the Panel.

IV. *THE RULING OF THE APPELLATE BODY*

On the cross-appeal of the EU and the United States, the matter went to the Appellate Body of the DSU. After determining that it was appropriate to review the Panel's conclusions about the meaning of the measure (Section 211) at issue, the Appellate Body made a threshold ruling that Section 211, which conditioned rights on obtaining the expressed consent of the original owner, was a measure that dealt with ownership.¹¹⁸ Therefore, the Appellate Body ruled that it would address each of the legal issues raised in the appeal with the understanding that the measure before it, Section 211, was one that relates to the ownership of a defined category of trademarks and trade names.¹¹⁹

A. *Article 6quinquies of the Paris Convention*

First, the Appellate Body addressed the issue of whether Section 211(a)(1) violated Article 6quinquies of the Paris Convention. Article 6quinquies requires that "[E]very trademark duly registered in the country of origin shall be accepted for filing and protected as is in other countries of the Union, subject to the reservations indicated in this Article."¹²⁰ The EU argued that this Article prevented the United States from taking any measure that did not allow the registration of the trademark "Havana Club" because the mark was already registered in its originating country.

After analyzing the phrase "as is," including going back to the original French phrase "*telle quelle*," the Appellate Body concluded that Article 6quinquies, particularly when interpreted in light of Article 6(1) of the Paris Convention,¹²¹ clearly reserves

118. See World Trade Organization, *United States — Section 211 Omnibus Appropriations Act of 1998*, WT/DS176/AB/R, Doc. No. 02-001 (Jan. 2, 2002), available at http://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm [hereinafter *European Communities v. United States (Appeal)*].

119. See *id.* para. 113.

120. Paris Convention, art. 6quinquies.

121. Paris Convention, art. 6(1) provides: "The conditions for filing and registra-

to the countries of the Convention the right to determine the conditions for filing and registration of trademarks by their domestic legislation. Article 6*quinquies* does not prevent the United States from having conditions of ownership, which could prevent the registration of the marks.¹²² Section 211 is a measure dealing with the ownership of a defined category of trademarks. Section 211(a)(1) does not violate Article 6*quinquies* because the obligation of countries of the Paris Union to accept for filing the protected trademark duly registered in the country of origin “as is” does not encompass matters related to ownership.¹²³ Therefore, the Appellate Body upheld the Panel’s ruling that Section 211(a)(1) was not inconsistent with Article 2.1 of the TRIPS Agreement in conjunction with Article 6*quinquies* of the Paris Convention.¹²⁴

B. Article 15.1 of the TRIPS Agreement

For essentially the same reason, the Appellate Body upheld the Panel in its ruling that Section 211(a)(1) was not inconsistent with Article 15.1 of the TRIPS Agreement. Article 15.1 defines protectable subject matter eligible for registration as a trademark. Before the Panel, the EU claimed that Section 211(a)(1) was inconsistent with Article 15.1 because it prohibited registration of trademarks that were protectable. The U.S. position was that Section 211(a)(1) did not concern or even address “protectable subject matter,” but rather concerned ownership and thus, was not in violation of Article 15.1.¹²⁵ In the alternative, the United States argued that even if Section 211(a)(1) did concern protectable subject matter, there was no violation of Article 15.1 because Section 211(a)(1) fell within the exception in Article 15.2, which permitted denial of registration on “other grounds.”¹²⁶

tion of trademarks shall be determined in each country of the Union by the domestic legislation.” *Id.*

122. *See* European Communities v. United States (Appeal), *supra* n.118, paras. 137, 139 (noting that art. 6(1) of the Paris Convention reserves to countries of Paris Union right to determine conditions for filing and registration of trademarks by their domestic legislation).

123. *See id.* para. 147.

124. *See id.*

125. *See supra* n.79 for text of TRIPS art. 15.1.

126. *See* European Communities v. United States (Appeal), *supra* n.118, para. 149. *See supra* n.82 for text of TRIPS art. 15.2.

The Panel found that the term “other grounds” used in Article 15.2 could include a measure that denied trademark registration on the basis that the applicant was not the owner under the law of the country involved, in this case, U.S. law. The Panel concluded that Section 211(a)(1) was a measure that dealt with the ownership of trademarks used in connection with confiscated assets and, therefore, it was not inconsistent with Article 15.1.¹²⁷

Again, as was the case in its ruling on Article 6*quinquies*, the Appellate Body turned to Article 6(1) of the Paris Convention in making its determination. The Appellate Body found that if Article 15.1 were interpreted to mean that a country was required to register any mark that met the distinctiveness criteria specified in that Article, then WTO Members would be deprived of the legislative discretion they enjoyed under Article 6(1). The Appellate Body concluded, therefore, that Article 15.1 only limited the rights of countries to determine the conditions for filing and registration of trademarks under their national laws, as they related to the distinctiveness requirement set forth in Article 15.1.¹²⁸

Section 211(a)(1) relates to ownership under U.S. law. The Appellate Body found the Section did not concern the inherent distinctiveness of marks as addressed by Article 15.1. Section 211(a)(1) did not prevent someone from registering a mark that was inherently distinctive, so long as that person met the ownership requirements set forth in Section 211.¹²⁹ Therefore, the Appellate Body concluded that Section 211(a)(1) was not inconsistent with Article 15.1 of the TRIPS Agreement and upheld the Panel’s ruling in that regard.¹³⁰

C. Article 16.1 of the TRIPS Agreement

Article 16.1 states:

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

127. See *European Communities v. United States (Appeal)*, *supra* n.118, para. 150.

128. See *id.* paras. 166-67, 178.

129. See *id.* paras. 155-56.

130. See *id.*

those in respect of which the trademark is registered where such use would result in the likelihood of confusion.¹³¹

Article 16 has generally been construed to require an internationally agreed upon minimum level of exclusive rights that the owner of a registered trademark enjoys and which all the WTO Members must guarantee in their domestic legislation.¹³²

The EU argued before the Panel that Sections 211(a)(2) and (b) deprived trademark owners of the exclusive rights conferred on them by Article 16.1 of the TRIPS Agreement, because they were denied access to the U.S. courts if they were a certain class of trademark owners, i.e., those who owned trademarks which had been confiscated without the permission of the owner.¹³³ The Panel concluded that the EU had not provided any evidence for concluding that Section 211(a)(2) would deprive a person who was deemed to be an owner of a registered trademark by a U.S. court of that person's exclusive rights. Therefore, the Panel ruled that there was no evidence that Sections 211(a)(2) or (b) was inconsistent with Article 16.1.¹³⁴

In upholding the Panel's ruling, the Appellate Body went further to affirmatively determine that neither Section 211(a)(2) nor (b) was inconsistent with Article 16.1. The Appellate Body said that Article 16.1 gives exclusive rights to the owner of a trademark but does not tell us who the owner is. The question of who is the owner is to be determined by national law. Under U.S. law, a person who has a trademark, which has been confiscated without the permission of the original owner, is not the owner. If you are not the owner, you have no rights to the trademark. Article 16.1, by its clear language only gives rights to owners. Therefore, the Appellate Body concluded Sections 211(a)(2) and (b) were not inconsistent with Article 16.1.¹³⁵

D. Article 42 of the TRIPS Agreement

Both the United States and EU appealed the Panel's decision on Article 42. The United States appealed the ruling that Section 211(a)(2) violated Article 42 by denying access to judi-

131. TRIPS, art. 16.1.

132. See *European Communities v. United States (Appeal)*, *supra* n.118, para. 186.

133. See *id.* para. 179.

134. See *id.* paras. 198-202.

135. See *id.*

cial procedures to trademark owners. The EU appealed the Panel's finding that it had not presented adequate evidence to show that Section 211(b) violated Article 42.¹³⁶

The Panel's findings on their face seemed somewhat inconsistent, as Section 211(a)(2) and Section 211(b) are mirror images of each other. Both deny access to trademark holders to U.S. courts. It would appear that if one were a violation of Article 42, so would the other, and vice versa. The Appellate Body agreed. It found, however, that both Sections 211(a)(2) and (b) *were not* violations of Article 42,¹³⁷ overturning the Panel's ruling that Section 211(a)(2) was inconsistent with Article 42. This had been the only point that the EU had won before the Panel below.

The Appellate Body found that the due process rights set out in Article 42 were clearly met through a judicial proceeding conducted under the Federal Rules of Evidence and the Federal Rules of Civil Procedure. The Appellate Body continued that if a court finds that one is not the owner of a trademark after a due process hearing because the mark was confiscated without the original permission of the owner, Article 42 does not require a court to go any further.¹³⁸

The Appellate Body stated: "[S]ection 211(a)(2) does not prohibit courts from giving right holders access to fair and equitable civil judicial procedures and the opportunity to substantiate their claims and to present all relevant evidence."¹³⁹ Rather, the Appellate Body concluded that Section 211(a)(2) only requires a court not to recognize trademark rights by persons who

136. *See id.* para. 203.

137. TRIPS Article 42 (Fair and Equitable Procedures) provides:

Members shall make available to the right holders civil judicial procedures concerning the enforcement of any intellectual property right covered by this Agreement. Defendants shall have the right to written notice, which is timely and contains sufficient detail, including the basis of the claims. Parties shall be allowed to be represented by independent legal counsel, and procedures shall not impose overly burdensome requirements concerning mandatory personal appearances. All parties to such procedures shall be duly entitled to substantiate their claims and to present all relevant evidence. The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements.

Id.

138. *See* European Communities v. United States (Appeal), *supra* n.118, paras. 222-27.

139. *Id.* para. 227.

have been determined not to own the trademark in question.¹⁴⁰ Applying the same logic, the Appellate Body made an identical finding as concerns Section 211(b).¹⁴¹

This portion of the Appellate Body's decision represented a major victory for the United States. Its scheme of preventing the courts from recognizing and enforcing trademark rights as concerns confiscated marks from Cuba had been upheld as legal under the WTO Agreements. The United States, thus, had won on the only issue on which the EU had prevailed before the Panel below. Yet, it faced another reversal.

E. Article 2.1 of the Paris Convention and Article 3.1 of the TRIPS Agreement — National Treatment

The Appellate Body then turned to the issue of national treatment, which is covered in Article 2(1) of the Paris Convention and Article 3.1 of the TRIPS Agreement. The Appellate Body began its discussion of national treatment by pointing out that it is one of the basic components of international intellectual property agreements. National treatment had been a provision in the original Paris Convention of 1883. Most of the Members of the EU were original or early Members of the Paris Convention, with the last Member joining seventy-five years ago. The United States has been a member of the Paris Convention since 1887 — 115 years ago. Therefore, the Appellate Body stated that all parties to this controversy were extremely aware of their obligations of national treatment and that they had provided these rights to the nationals of other signatories for over one hundred years.

What was new was that the Paris Convention had been incorporated by reference into the TRIPS Agreement. Therefore, its obligations were now the obligations of all the Members of the WTO. Also, enforcement of its provisions, including national treatment, was now under the DSU with its strong dispute settlement procedures.¹⁴² The Appellate Body also noted that the TRIPS Agreement had its own national treatment provision,

140. *See id.*

141. *See id.* paras. 229-31.

142. Previously, the provisions of the Paris Convention could only be enforced by bringing a case before the International Court of Justice ("ICJ"), which does not have the automatic enforcement powers of the DSU. *See Paris Convention*, art. 28.

thus, further emphasizing the basic significance of the obligation of national treatment for the enforcement of intellectual property rights.¹⁴³

The EU argued that Sections 211(a)(2) and (b) violated the national treatment obligation by treating non-U.S. nationals less favorably than U.S. nationals both, where the law applied to successors-in-interest and to original owners.¹⁴⁴

Section 211(a)(2) provides that U.S. courts are not to recognize rights by a "designated national."¹⁴⁵ The term "designated national" is defined in Section 211(d)(1) to include 1) Cuba; 2) any Cuban national; 3) a "specially designated national"; or 4) "a national of any foreign country who is a successor-in-interest to a designated national."¹⁴⁶ The Panel below recognized that on the face of it, Sections 211(a)(2) and (b) would appear to give less favorable treatment to foreign nationals than to U.S. nationals as concerns successors-in-interest.¹⁴⁷ Sections 211(a)(2) and (b) clearly provide that a foreign national, who is a successor-in-interest to a designated national, may not have its rights to a mark recognized or enforced by a U.S. court, while a U.S. national, who is a successor-in-interest to a designated national, can have its rights enforced if it has received a specific license from OFAC. The Panel, however, accepted the U.S. argument that, as a practical matter, OFAC, pursuant to Section 515.201 of 31 C.F.R., had never issued a specific license to a U.S. national to be a successor-in-interest to an expropriated Cuban trademark. Therefore, in practicality, there was no less favorable treat-

143. See *European Communities v. United States (Appeal)*, *supra* n.118, paras. 233-43.

144. See *id.* para. 244.

145. See *supra* n.26 for full text of sec. 211 (a)(2).

146. OAA Sec. 211 (d)(1) reads:

In this Section:

(1) The term "designated national" has the meaning given such term in Section 515.305 of title 31, Code of Federal Regulations, as in effect on September 9, 1998, and includes a national of any foreign country who is a successor-in-interest to a designated national.

(2) The term "confiscated" has the meaning given such term in section 515.336 of title 31, Code of Federal Regulations, as in effect on September 9, 1998.

Id.

147. See *European Communities v. United States (Appeal)*, *supra* n.118, paras. 247-48.

ment.¹⁴⁸

The EU argued, however, that despite the United States' assertion that no specific license had ever been granted to a U.S. national, a non-U.S. national still faced an "extra hurdle." This was because, assuming that one could get a specific license from OFAC, a non-U.S. national would still have the additional hurdle of a Section 211(a)(2) proceeding to enforce its mark while a U.S. national would not.¹⁴⁹

The Appellate Body ruled that while there was an extremely small likelihood that a non-U.S. national would face the twin hurdles of both Sections 515.201 and 211(a)(2), it was still possible that a non-U.S. successor-in-interest could face two hurdles while a U.S. successor-in-interest would not. This was inherently less favorable treatment. Thus, the Appellate Body concluded that Section 211(a)(2) violated the principle of national treatment as set forth in Article 2(1) of the Paris Convention and Article 3 of the TRIPS Agreement, and reversed the Panel's decision.¹⁵⁰

The Appellate Body, however, came to the opposite conclusion concerning Section 211(b). Citing the Panel's decision it said:

Section 211(b) states that U.S. courts shall not recognize, enforce or validate any assertion of treaty rights by a "designated national or its successor-in-interest." The difference between Section 211(a)(2) and Section 211(b) is that the latter contains the additional term—"its successor-in-interests"—whereas the former just refers to a "designated national."¹⁵¹

The Appellate Body continued: "Section 211(b) is not limited to foreign nationals which means that it includes U.S. nationals. This would mean that any transfer of trademarks used in connection with confiscated assets to any national, including U.S. nationals, would be subject to Section 211(b)."¹⁵² Therefore, there is no less favorable treatment between foreign nationals and U.S. nationals and no violation of national treatment.¹⁵³

Having decided the successor-in-interest prong of Sections

148. *See id.* paras. 248–53.

149. *See id.* paras. 255–56.

150. *See id.* paras. 261–64, 269.

151. *Id.* para. 270.

152. *Id.*

153. *See id.* paras. 271–72.

211(a)(2) and (b) on national treatment grounds, the Appellate Body then went on to the owner prong of the statute. The had argued that, with respect to original owners, Sections 211(a)(2) and (b) did not accord national treatment to foreign owners, as opposed to original owners who were U.S. nationals. The EU argued that both Sections 211(a)(2) and (b) violated the national treatment obligation because they provided less favorable treatment to Cuban nationals who were original owners than to U.S. nationals who were original owners.¹⁵⁴

To support this argument, the EU put forth a specific hypothetical. In this hypothetical, the EU asked the Appellate Body to consider the following set of facts:

There are two separate trademark owners who acquired rights in two separate United States trademarks, either at common law or based on registration, before the Cuban confiscation occurred. Each of these two United States trademarks is the same as the trademark registered in Cuba. That same Cuban trademark was used in connection with a business that was confiscated. Neither of the two original owners of the two United States trademarks was the owner of the mark registered in Cuba. Those two original owners seek to assert rights in the United States in their two respective United States trademarks. The situation is the same for these two original owners for the two United States trademarks with one exception. One original owner is a national of Cuba and the other original owner is a national of the United States.¹⁵⁵

The EU then argued that under Sections 211(a)(2) and (b), an original owner, who is a Cuban national, is subject to its provisions while an original owner who is a U.S. national is not. Therefore, the Cuban national is given treatment less favorable than the U.S. national, and this is a violation of the national treatment obligations of the United States under the TRIPS Agreement.

The Appellate Panel noted that Sections 211(a)(2) and (b) applied to “designated nationals,” who are defined as “Cuba and any national thereof.” Sections 211(a)(2) and (b) apply to original owners who are Cuban nationals, but do not apply to original owners who are U.S. nationals, as they are not covered by the

154. *See id.* para. 275.

155. *Id.* para. 276.

definition of “designated nationals.” Thus, U.S. nationals are not subject to the limitations of Sections 211(a)(2) and (b).¹⁵⁶

Therefore, the Appellate Body reversed the Panel and ruled that Sections 211(a)(2) and (b) were discriminatory on their face and inconsistent with the national treatment obligations of the United States under Article 2.1 of the Paris Convention and Article 3 of the TRIPS Agreement.¹⁵⁷

F. Article 4 of the TRIPS Agreement — Most-Favorite-Nation

For essentially the same reasons, the Appellate Body found that Sections 211(a)(1) and (b) violated the MFN treatment as provided in Article 4 of the TRIPS Agreement.¹⁵⁸ The Appellate Body began by saying that MFN, like national treatment, was one of the cornerstones of international trade treaties. For over half a century, it had been an obligation of Members of the GATT to afford MFN treatment to the other Members of the GATT. The United States and most of the Members of the EU were original Members of the GATT. The Appellate Body noted that the MFN requirement contained in Article 1 of the GATT had been critical to the orderly international trade of goods in the post-war era. The Appellate Body continued that unlike national treatment, there was no MFN provision in the Paris Convention. However, the framers of the TRIPS Agreement found it so important that they extended its protections to intellectual property law. Therefore, the MFN obligation must be accorded the same significance as concerns intellectual property as it has been accorded by the GATT with respect to trade in goods. The Appellate Body concluded: “It is, in a word, fundamental.”¹⁵⁹

The Panel found that Sections 211(a)(2) and (b) did not violate the MFN provision of the TRIPS Agreement. The Appellate Body, following the same hypothetical set forth by the EU in its analysis of national treatment, ruled to the contrary and overturned the Panel’s decision. The Appellate Body found that on the face of the statute, an original owner who was a Cuban national was subject to Sections 211(a)(2) and (b), while an origi-

156. See *id.* paras. 277-79.

157. See *id.* para. 296.

158. See TRIPS, art.4.

159. See *European Communities v. United States (Appeal)*, *supra* n.118, para. 297.

nal owner who was a non-Cuban foreign national, was not.¹⁶⁰

The definition of “designated national” in Section 515.305 of 31 C.F.R. and Section 211(d)(1) includes non-Cuban foreign nationals only when they are successors-in-interest to Cuba or Cuban nationals. Non-Cuban foreign nationals who are original owners are not covered by the definition of “designated national” and are not subject to Sections 211(a)(2) and (b). Therefore, Sections 211(a)(2) and (b) are discriminatory as between a Cuban national and a non-Cuban foreign national, both of whom were original owners of the U.S. trademarks composed of the same mark used in connection with a business that was confiscated by Cuba.¹⁶¹ For this reason, Section 211 was in violation of the MFN provision of the TRIPS Agreement because a privilege granted by a Member (the United States) to a national of another country was not granted to nationals of all Members.

G. *Trade Names*

Finally, the Appellate Body turned its attention to the issue of whether trade names were covered under the TRIPS Agreement. The Panel below had found that they were not. Consequently, the Panel had limited its findings on the inconsistencies of Sections 211(a)(2) and (b) to the issue of trademarks.¹⁶²

The United States and the EU both urged the Appellate Body to overturn the Panel’s decision that trade names were not covered by the TRIPS Agreement. The EU, however, argued that Sections 211(a)(2) and (b) were inconsistent with the U.S. obligations under the TRIPS Agreement for trade names. Of course, the United States disagreed.¹⁶³

The Appellate Body began its analysis by discussing the Panel’s reasoning in deciding that trade names were not covered by the TRIPS Agreement. Article 1.2 of the TRIPS Agreement provides: “[f]or the purposes of this Agreement, the term ‘intellectual property’ refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II”.¹⁶⁴ These Sections of the TRIPS Agreement list a number of intellectual

160. *See id.* paras. 306-09.

161. *See id.* paras. 307-10.

162. *See id.* para. 323.

163. *See id.* paras. 323-25.

164. TRIPS, Art. 1.2

property categories that are covered: patents, trademarks, geographical indications and the like. These Sections do not list trade names. Therefore, the Panel concluded that trade names were not covered by the TRIPS Agreement under Article 1.2.¹⁶⁵

Next, the Panel reviewed Section 2.1 of the TRIPS Agreement, which incorporates by reference the Paris Convention and which states: “[i]n respect of Parts II, III, and IV of this Agreement, Members shall comply with Articles 1 through 12 and Article 19 of the Paris Convention (1967).” Article 8 of the Paris Convention specifically covers trade names. The Panel, however, concluded that the words “in respect of” in Article 2.1 were limiting as to the incorporation of the provisions of the Paris Convention, including Article 8. That is, that the Members of the TRIPS Agreement had to comply with Articles 1 through 12 and Article 19 of the Paris Convention “in respect of” what was covered in Parts II, III, and IV of the TRIPS Agreement, i.e., the rights enumerated. Trade names were not enumerated and therefore, were not covered.¹⁶⁶

The Appellate Body disagreed with this analysis. It noted that to adopt this line of reasoning would essentially have the effect of writing Article 8 of the Paris Convention out of the TRIPS Agreement. The Appellate Body stated that this could not have been the intent of the framers as they specifically included the incorporation of Article 8 into the TRIPS Agreement through Article 2.1. Further, the Appellate Body concluded that the list of types of intellectual property in the TRIPS Agreement was by way of enumeration and not limitation. The Appellate Body stated that the mistake the Panel made was that it interpreted the phrase “intellectual property” as referring to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II as if that phrase read “intellectual property means those categories of intellectual property appearing in the titles of Section 1 through 7 of Part II.”¹⁶⁷

The Appellate Body felt that this interpretation ignored the plain meaning of Article 1.2 by failing to take into account the phrase “the subject of Sections 1 through 7 of Part II deals not

165. See *European Communities v. United States (Appeal)*, *supra* n.118, paras. 326-28.

166. See *id.* paras. 329-32.

167. *Id.* para. 335.

only with the categories of intellectual property indicated in each Section, but with other subjects as well."¹⁶⁸ Therefore, the Appellate Body concluded that trade names were covered by the TRIPS Agreement and overturned the Panel's decision in this regard.¹⁶⁹

Next, the Appellate Body turned to the issue of whether Section 211 violated the TRIPS Agreement as concerns trade names as opposed to trademarks. After analyzing the relevant portions of the Lanham Act, noting that trade names were given the same protection under American law as common law trademarks, the Appellate Body concluded that for the same reasons it ruled that Section 211 violated national treatment and MFN for trademarks, so too did it violate these two basic principles for trade names.¹⁷⁰

Consequently, the Appellate Body found, as concerns trade names, that Section 211(a)(2) was in violation of national treatment as concerns successors-in-interest while Section 211(b) was not; Sections 211(a)(2) and (b) were in violation of national treatment as concerns owners; and Sections 211(a)(2) and (b) were in violation of MFN as concerns both owners and successors-in-interest.

H. *The Appellate Body's Conclusion*

In its concluding remarks, the Appellate Body emphasized that its decision was not a ruling on confiscation or the appropriateness of a WTO Member expropriating intellectual property without compensation. The Appellate Body continued to state that it was not expressing any opinion, nor should it do so concerning whether a Member of the WTO should recognize in its own territory trademarks or trade names which had been confiscated without compensation in another territory. However, the Appellate Body concluded:

[W]here a WTO Member chooses not to recognize intellectual property rights in its own territory relating to a confiscation of rights in another territory, a measure resulting from and implementing that choice must, if it affects other WTO Members, comply with the TRIPS Agreement by which all

168. *Id.*

169. *See id.* paras. 337-41.

170. *See id.* paras. 342-59.

WTO Members are voluntarily bound. In such a measure, that WTO Member must accord “no less favorable treatment” to the nationals of all other WTO Members than it accords to its own nationals, and must give to the nationals of all WTO Members “any advantage, favor, privilege or immunity” granted to any other WTO Member.¹⁷¹

The Appellate Body in its decision found that the United States did not do this in passing Section 211 of the Omnibus Appropriation Act.¹⁷²

V. AFTERMATH

The United States announced in April 2002 that, pursuant to discussions with the EU, it would comply with the DSB’s ruling and change Section 211 of the OAA to make it consistent with the TRIPS Agreement. Article 21 of the DSU allows a Member a “reasonable period” of time to implement the recommendation of the DSB.¹⁷³ This reasonable period should not exceed fifteen months from the date of the adoption by the DSB of the Appellate Body’s report. The United States stated that it would make the necessary legislative changes by December 31, 2002 or when the current session of the U.S. Congress would adjourn, but in no event later than January 3, 2003.¹⁷⁴ As of the date that this Article is being written, it does not appear that the U.S. Congress will meet this deadline if for no other reason than because of the general gridlock in the Congress.¹⁷⁵

While it would be a relatively easy technical matter to amend Section 211 to make it compatible with the TRIPS Agreement, it is not entirely clear how this could be done in a manner that would still give Bacardi rights to the mark and prevent Pernod-Ricard from enforcing its marks in the United States without adversely affecting other U.S. interests. The whole purpose of Section 211 was to discriminate against Pernod-Ricard in favor of Bacardi. To remove the discrimination against Pernod-Ricard would mean that marks are enforceable in the United

171. *Id.* para. 363.

172. *See id.* paras. 326-63.

173. *See* DSU, art. 21.

174. *See* Ravi Kanth, *U.S. to Comply With Havana Club Ruling, Make Changes in Statute by January 2003*, 19 INT’L TRADE REP. no. 15, 663 (Apr. 11, 2002).

175. On January 7, 2003, the United States and the EU circulated a communication to WTO Members extending the deadline to June 30, 2003.

States. To universalize the ban on enforcing trademarks confiscated by Cuba so that it applied equally to U.S. nationals as well as non-U.S. nationals, would protect Bacardi's position but could hurt other U.S. business interests, especially abroad.

Politics have again intervened. OFAC repealed the special license to Pernod-Ricard and Congress passed Section 211 only after heavy lobbying by Bacardi. The whole purpose of both actions was to prevent Pernod-Ricard, through HCH and HCI, from enforcing its mark in federal court. Without these actions, Pernod-Ricard would have won.

Documents recently released through a Freedom of Information request showed the Florida Governor's office engaging in an intensive lobbying campaign to influence the PTO on Bacardi's behalf after the WTO ruled in January 2002. These actions allegedly included efforts to have political appointees overrule career employees in their decisions on the case as they tried to implement the WTO decision, and caused the removal from the case of a PTO lawyer who had made a preliminary ruling in Pernod-Ricard's behalf. Bacardi has been a major contributor to the Florida Republican party.¹⁷⁶ These actions bring into question if the United States is actually going to change the law to bring it into compliance with the DSB's ruling, or change it in a manner that would satisfy the EU. If the EU deems the U.S. changes insufficient, it can bring the United States back before the WTO for a summary enforcement proceeding.¹⁷⁷

If the United States does not change the law by the deadline, then it could be subject to sanctions by the WTO. The EU could either demand compensation or seek retaliation.¹⁷⁸ If the United States did have to pay compensation, this would create an additional political issue. It would mean that other U.S. industries and U.S. exporters would suffer through imposition of higher tariffs put on their goods by the EU. This cost and its harm to the U.S. economy would essentially be a subsidy to the private interests of Bacardi, a Bermuda-based corporation.¹⁷⁹

176. See Thomas B. Edsall, *Gov. Bush Reveals Lobby Effort; Documents Show Intervention in Trademark Case*, Wash. Post, Oct. 18, 2002, at A12, col. 3.

177. See DSU, art. 22 in conjunction with arts. 21 and 23.

178. See *id.*

179. In reviewing this case, it is somewhat ironic to note that the United States stated at the time of its joining the WTO that two of the major items which it had achieved as concerns dispute settlement were: 1) automatic adoption of Appellate Body

Regardless of how matters resolve themselves, what the case does show is that the WTO has the power to make a country change its laws, pay compensation, or suffer retaliation. This is somewhat in contrast to what the United States represented when it introduced the Uruguay Road Implementation Act in 1994. The SAA specifically stated that "it is important to note that the new WTO dispute settlement system does not give panels any power to order the United States or other countries to change their laws."¹⁸⁰ The SAA continued stating that "[r]eports issued by panels or the Appellate Body under the DSU have no binding effect under the law of the United States and do not represent an expression of U.S. foreign or trade policy."¹⁸¹ If a report recommends that the United States change federal law to bring it into conformity with an Uruguay Round Agreement, it is for the Congress to decide whether any such change will be made.¹⁸²

While this is technically true, it may be politically or financially difficult, if not impossible, to pay the compensation or retaliation. Damages in this case have been estimated to be up to U.S.\$250 million.¹⁸³ Essentially, the choice one has if the WTO finds a law in violation of one of the Uruguay Round Agreements, is to change the law according to the DSB's recommendations, or pay what amounts to a huge fine, a fine that continues year after year until the law is changed. What this means in reality is that WTO decisions under the DSU border on self-executing legal decisions. If the United States does change Section 211, the WTO's decision will have the practical effect of invalidating a law passed by the U.S. Congress and of overruling, *de facto*, a decision of the U.S. Court of Appeals.

As for the WTO, the case made clear that trade names, as well as trademarks, are covered by the TRIPS Agreement. This was important from a systemic point of view because it covered a possible gap in the types of intellectual property protected by

reports and a request for retaliation; and 2) automatic authority for complaining parties to retaliate, including in sectors outside the subject of the dispute on request if Panel recommendations are not implemented and if there is no mutual satisfactory solution (compensation) to the matter. See SAA, *supra* n.9, at 1008.

180. *Id.*

181. *Id.*

182. See *id.* at 1032.

183. See Pruzin, *supra* n.18, at 1471.

the TRIPS Agreement. The Appellate Body's ruling also affirmed the basic right of a country to establish the terms of ownership of trademarks within that country, and, in particular, upheld the right of a country to deny registration and enforcement of marks, which have been confiscated. These two rulings are significant in themselves and are important additions to WTO jurisprudence in the protection of international intellectual property rights.

Finally, the WTO firmly and emphatically reaffirmed the principles of national treatment and MFN. It made clear that discrimination between nationals and non-nationals, no matter what the reason—even national security—would not be allowed in the trade agreements administered by the WTO. This is perhaps the most important result of the whole case.