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# World Trademark Review



## McBurned

The downside of being an aggressive trademark owner

# A heady mix

The dispute that broke out 10 years ago in the United States over the rights to the mark HAVANA CLUB for rum is not your average trademark case: here legal issues mix with hot politics. But while everyone's attention focuses on either the legal or political aspects of the dispute, these should not distract from the reality that, as in all trademark disputes, what is ultimately at stake is big business



A fresh round of hostilities has broken out between French liquor giant Pernod-Ricard and its Bermuda-based (and much larger) rival Bacardi over the US rights to the trademark HAVANA CLUB for rum. The protracted legal battle has been ongoing for more than a decade and involved proceedings before various US federal trial and appellate courts, the US Patent and Trademark Office (USPTO) and the World Trade Organization. Its origins date back to the Cuban revolution of 1959 and the saga has featured more dramatic plot twists than a John Grisham potboiler. With both parties recently having failed in their efforts before the USPTO to secure US rights to the mark, they have once again turned to the federal courts to sort the matter out, but there seems little reason for optimism that a final resolution will come any time soon.

In the most recent action filed on August 16 2006, Pernod-Ricard is seeking an injunction barring Bacardi from using the HAVANA CLUB mark in the United States. The complaint comes fast on the heels of Bacardi's announcement on August 8 that it would relaunch the HAVANA CLUB brand in the United States. Bacardi made that announcement just days after the USPTO formally refused to renew the US trademark registration for HAVANA CLUB held by Pernod-Ricard's Cuban joint venture partner.

## Background

To understand the dispute, one must go back 50 years, to pre-Fidel Castro Cuba. At that time, HAVANA CLUB rum, manufactured in Cardenas, Cuba and distributed internationally by family-owned

Jose Arechabala SA (JASA), was one of the leading brands of rum in the world. The mark was first used in 1934 and was registered in Cuba, the United States and elsewhere. JASA's first US registration for a HAVANA CLUB mark was issued in 1935; at various times between 1935 and 1953, JASA obtained four federal trademark registrations for HAVANA CLUB marks. All of these were not renewed and expired after their initial 20-year terms.

In the wake of the Cuban revolution, the Castro government nationalized most Cuban industry. In 1960 the Cuban military forcibly seized the assets of JASA and the Arechabala family was driven into exile, first to Spain and later to the United States. Neither JASA nor any of the Arechabala family ever received any compensation for the seizure of their business. (Also nationalized at this time were the Bacardi distillery business and the assets of several large US corporations, among many others.)

In an effort to weaken the Castro regime and to thwart Castro's attempts to destabilize other Latin American governments, the United States imposed a trade embargo on Cuba in 1963, pursuant to the Trading with the Enemy Act of 1917. The terms of the embargo were formalized in the Cuban Assets Control Regulations, which are administered by the Office of Foreign Assets Control (OFAC).

As a result of the seizure and the ensuing embargo, importation of HAVANA CLUB rum into the United States ceased in 1960. The Arechabala family was unable to restart their business in exile and, being unable to prove continued use of the HAVANA CLUB mark in US commerce, were compelled to allow their final federal trademark

Below  
Logos of two of the pretenders and  
the mark they are fighting over



registration for HAVANA CLUB to expire in 1973.

Meanwhile, in Cuba, the nationalized company resumed production of rum in the former JASA distillery. The business was operated by a government-controlled enterprise called Empresa Cubana Exportadora de Alimentos y Productivos Varios SA, commonly known as Cubaexport. Significant exportation of Cubaexport's HAVANA CLUB branded rum began in 1972, primarily to the Soviet Union and its satellite states in Eastern Europe. Beginning in 1966, Cubaexport started registering the HAVANA CLUB mark in its own name in numerous countries, and after JASA's last US registration expired, Cubaexport applied for and registered the HAVANA CLUB mark in the United States in 1976. (Because Cubaexport could not show use of the mark in US commerce, this 1976 US registration was based on Cubaexport's prior registration of the mark in Cuba, under the reciprocal registration rights granted by the Inter-American Convention and other treaties.) Cubaexport continued to expand the business and by the 1990s was exporting millions of cases of HAVANA CLUB rum to numerous countries in Europe and the Americas.

At all times, Cubaexport's stated intention was to sell its product in the United States as soon as it was legally possible to do so and in an effort to boost its international distribution capacity it entered into a joint venture with Pernod-Ricard in 1993. At about the same time, Pernod-Ricard attempted to purchase the Arechabala family's remaining rights in the HAVANA CLUB business, without success. (The parties dispute the significance of that failed negotiation, with

the Arechabalas and Bacardi calling it an admission of the Arechabalas' senior rights, and Pernod-Ricard characterizing it as merely a nuisance payment intended to avert the litigation which was soon to come.)

The Arechabalas then formed an alliance with a Bacardi subsidiary in 1994; ultimately they would sell all of their rights in the HAVANA CLUB rum business to Bacardi outright in 1997. The assets that the family were able to convey notably included the original recipe for HAVANA CLUB rum. The recipe had been committed to memory by members of the Arechabala family and thus eluded confiscation by the Castro regime. Bacardi's subsidiary Galleon SA shortly thereafter began producing original-recipe HAVANA CLUB rum in the Bahamas and exporting it in small amounts on a trial basis to the US state of Florida, home to a large and politically influential community of Cuban expatriates and émigrés.

### First phase of the dispute

The pace of events accelerated rapidly in 1995 and 1996. First, in connection with forming the joint venture with Pernod-Ricard, Cubaexport assigned its US trademark registration for the HAVANA CLUB mark to a new Cuban entity, Havana Rum & Liquors, and thence to joint venture entity Havana Club Holdings SA (HCH), a Luxembourg corporation. HCH then petitioned OFAC for approval of the assignment. (Under the terms of the US embargo, any transfer of a US asset – such as a trademark registration – either to or from a Cuban entity requires a licence from OFAC under the Cuban Assets Control Regulations.) That licence was granted by OFAC in April 1995. Bacardi meanwhile began limited distribution of its HAVANA CLUB rum in Florida and then filed a petition with the USPTO to cancel the registration now held by HCH. HCH timely renewed its registration in 1996 and then filed a civil action for trademark infringement against Bacardi and its subsidiary Galleon in a federal district court in New York.

Thus began the litigation which, over the course of the next decade, would take a series of increasingly improbable twists and

### Codifying the US embargo on Cuba

The year 1996 also saw the US Congress enact the Cuban Liberty and Democratic Solidarity Act of 1996, commonly known as the Helms-Burton Act or the Libertad Act. The Helms-Burton Act codified the Cuban Assets Control Regulations and effectively made the US embargo permanent. Whereas previously the president was required to assess the embargo on an annual basis and determine whether it should be continued, the Helms-Burton Act specified that the embargo would remain in place indefinitely unless and until the president determined that Cuba had begun a *bona fide* transition to a democratic government. Passage of the Helms-Burton Act dismayed those (not least Pernod-Ricard, presumably) who were hoping for some moderation in US policy towards Cuba in the years after the collapse of the Soviet Union. Instead, if anything, the Helms-Burton Act ratcheted up the pressure on the Castro regime – and anyone who would have dealings with the regime. Title III of the act explicitly criminalized trafficking in property confiscated by the Castro government and barred entry to the United States of foreign business executives whose companies had dealings in Cuba in violation of the embargo. International business interests decried this effort to impose the US government's Cuba policy on citizens of other countries, but Congress had made its intention abundantly clear: there would be no relaxation of the embargo for the foreseeable future.

turns and remains unresolved – and still raging – today.

In its first major ruling in the case brought by HCH against Bacardi, issued in March 1997, the court addressed the defence raised by Bacardi that the 1995 licence granted by OFAC authorizing the transfer of Cubaexport's registration to HCH was invalid because it was obtained by fraud. The court dealt the Bacardi parties a defeat, holding that Bacardi lacked standing to challenge the licence and further that the grant of the licence was not subject to judicial review. The court reasoned that implementation and application of the Cuban Assets Control Regulations were matters of foreign policy, which are constitutionally reserved to the executive and legislative branches of government.

Bacardi's defeat was only temporary, however. Just five weeks after this ruling – a period characterized by intense lobbying by anti-Castro interests in Washington – OFAC abruptly revoked the 1995 licence it had granted to Cubaexport and HCH in respect of the HAVANA CLUB trademark assignment. OFAC's order was retroactive

in effect and stated only that unspecified facts and circumstances had come to OFAC's attention bearing on the application. The assignment of the registration to HCH instantly became null and void and the 1996 renewal cast into doubt.

With Bacardi's primary defences thus revived, the action resumed in the federal district court in New York. The Bacardi parties moved for summary judgment, again contending that HCH had no rights to use or enforce the mark, or even retain the registration, because the assignment of the registration from Cubaexport to HCH was not licensed by OFAC. Faced with the new set of facts – namely the retroactive revocation of the OFAC licence – the court this time ruled in favour of Bacardi, in a decision issued in August 1997. The court reasoned that the transfer of the registration to HCH was invalid and also rejected HCH's alternative argument based on the reciprocal registration rights provided in the Inter-American Convention, finding that treaty to have been abrogated (at least temporarily) by the Cuban Assets Control Regulations and the



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## “ The purpose and effect of Section 211 was unmistakable: to defeat once and for all any attempt by anyone connected with Cubaexport and the Castro regime to use, register or enforce the HAVANA CLUB mark in the United States ”

recently enacted Helms-Burton Act. However, the court rejected Bacardi's petition to cancel the registration outright, reasoning that Cubaexport, as the record owner of the registration, but not a named party to the case, must be present in order for its rights to be fairly adjudicated. The court also permitted the HCH parties to assert additional claims against Bacardi, sounding in the Inter-American Convention and in their rights in Havana Club as a trade name (as opposed to a trademark).

The litigation continued. In 1998 the court granted another motion by HCH to dismiss most of Bacardi's counterclaims in the case, allowing only two to survive. The first was an 'unclean hands' defence: HCH had complained in part that Bacardi's use of the HAVANA CLUB mark was deceptive because the product was made in the Bahamas, but Bacardi counterclaimed that HCH was barred from asserting such a claim because some of its own rum was distilled in Panama. (Ironically, at no time was either party's HAVANA CLUB rum ever made in the city of Havana: the Arechabala distillery was located in Cardenas, which is outside Havana in Matanzas province.) Bacardi was also permitted to go forward on its claim that it had the senior US rights to the mark because it was the first to use the mark in the United States (by virtue of the limited distribution of its rum in 1995 just before the litigation commenced).

### Section 211

Then, in October 1998, the night before it adjourned, Congress enacted the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999. Passage of these sorts of supplemental appropriations acts is a common occurrence near the end of each congressional session when it is necessary to appropriate additional moneys to keep governmental programmes running until the next year's budget is approved. These bills are typically passed hastily, at the last minute and with little or no debate, and are generally treated as must-pass since they are needed to keep the government running. As a result, they are a source of great temptation for members of Congress to attach substantive amendments or special spending projects which might otherwise fail to win a majority or would attract negative publicity. Thus, this appropriations bill included Section 211, added without debate or separate vote at the request of Senator Connie Mack of Florida. The new law provided, in pertinent part, as follows:

- Section 211(a)(1) closed an exception in the Cuban Assets Control Regulations which permitted Cuban trademark owners to register and renew their marks in the United States; the USPTO would be barred from accepting any such registration or renewal

fee if the mark had once been confiscated and the original owner did not consent; and

- Sections 211(a)(2) and (b) barred any US court from enforcing rights in a confiscated Cuban trademark or trade name, whether registered under domestic law, registered pursuant to any treaty or acquired by common law, in the absence of the consent of the original owner.

The purpose and effect of Section 211 was unmistakable: to bring a rapid end to the current litigation and to defeat once and for all any attempt by HCH (or anyone else connected with Cubaexport and the Castro regime) to use, register or enforce the HAVANA CLUB mark in the United States.

Section 211 made the ensuing course of events in the US litigation inevitable. The district court dismissed HCH's case in its entirety in 1999, finding HCH's claims flatly precluded by Sections 211(a)(2) and 211(b). That ruling was upheld by the US Court of Appeals for the Second Circuit in 2000 and the US Supreme Court declined to review the case shortly thereafter.

So ended the HAVANA CLUB litigation in the United States – or did it?

### Renewed USPTO proceedings

While the district court litigation raged, Bacardi's 1995 petition to cancel Cubaexport's trademark registration lay dormant at the USPTO's Trademark Trial and Appeal Board. Activity in that case had been suspended pending the disposition of the civil litigation. In the wake of its trial and appellate victories, Bacardi returned to the USPTO and reactivated the cancellation proceeding, arguing (in part) that the 1996 assignment and renewal of the registration by HCH was fraudulent and invalid because it was not properly licensed by OFAC under the Cuban Assets Control Regulations. While the case was pending, lobbying was intense, with ethics inquiries later being made into the activities of Florida Governor Jeb Bush (brother of President George W Bush) and then US House majority leader Tom DeLay, a Texan and close Bush ally, arising out of their *ex parte* communications to USPTO officials advocating a decision in favour of Bacardi's interests. Ultimately, however, and notwithstanding Section 211, the USPTO board rejected all of Bacardi's claims and refused to cancel Cubaexport's registration. In a decision issued in late January 2004, the board pointedly noted that the district court had also declined to cancel the registration and further held that:

- there was nothing in Cubaexport's original 1976 trademark application that was knowingly and materially false since there



Left  
Ownership of the **STOLICHNAYA**  
mark is also contested

### The WTO dispute

The enactment and operation of Section 211 also had another, perhaps unintended but no less serious consequence: it sparked a lengthy and unresolved trade dispute between the United States and the European Union. Acting at the behest of Pernod-Ricard – a French entity – the European Union initiated a consultation and ultimately a complaint before the World Trade Organisation's (WTO) Dispute Settlement Body, contending that operation of Section 211 violated the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) because it discriminated against foreign nationals. The restrictions of Section 211 by their terms did not apply to US citizens; the requirements to obtain a licence and consent applied only to foreign nationals. The additional burdens thus placed on foreign parties were said to violate the national treatment and most-favoured nation provisions of the TRIPs Agreement.

The WTO panel ultimately ruled in favour of the European Union and that decision was upheld on appeal. The United States was faced with the choice of:

- repealing Section 211;
- amending it to make its terms applicable to US citizens and entities; or
- proposing some other form of compensation.

The parties have not yet come to any settlement with respect to the nature or timing of the US compliance with this decision.

The Castro government has also loudly protested the enactment of Section 211 and has threatened to deny recognition of US trademarks registered in Cuba. This has led a number of major multinational trademark owners to lobby the US Congress for the repeal of Section 211, but thus far all repeal attempts have failed.

was room for doubt at that time over which party truly owned the mark. Since JASA had not used its mark in years and had allowed its registrations to lapse, there was a basis for Cubaexport to believe it had a right to use the mark in the United States;

- there was nothing in Cubaexport's 1982 maintenance filings for the registration that was knowingly and materially false under US law in effect at the time, which required only that the registrant attest that the mark was in use *somewhere* – not necessarily inside the United States; Cubaexport was undeniably using its mark in several countries at that time;
- the absence of an OFAC licence authorizing the assignment of the registration from Cubaexport to HCH did not render the 1996 renewal application fraudulent because there was no evidence of a *willful* violation of the Cuban Assets Control Regulations; to the contrary, Cubaexport and HCH made every effort to comply with the regulations and reasonably believed that it was in compliance at the time they filed the renewal papers. There was no evidence that they intended to deceive the USPTO about the ownership of the registration; and finally
- any claim that Cubaexport was not the true and legitimate owner of the mark amounted to a political question on the legitimacy of the Cuban government, which was beyond the competence of the USPTO to determine.

The registration remained in effect and reverted to Cubaexport. Bacardi promptly appealed that decision by filing a new civil

action in the US District Court for the District of Columbia, seeking cancellation of Cubaexport's registration and a judicial declaration that Bacardi is the rightful owner of the mark in the United States. That case is still ongoing, with the parties engaged in discovery.

#### Latest twists

So matters stood, in relative quiescence, until the new flurry of activity in August this year. Cubaexport's registration was due for its next renewal on or before January 27 2006. Cubaexport timely filed its renewal papers in December 2005, but the application was rejected by the USPTO, primarily because the USPTO was barred by Section 211 from accepting payment of the renewal fees from a Cuban entity in connection with a mark which had been confiscated. Cubaexport petitioned OFAC for a specific licence to pay the fee, but because Section 211 conditioned any such licence upon the consent of the original owners of the mark – which clearly was not forthcoming – the licence request was denied. On August 3 the USPTO issued a final refusal of the renewal application and officially changed the status of the registration on its database to “cancelled/expired”. (Because Cubaexport has since filed a petition to the USPTO's commissioner of trademarks seeking review of the final refusal, the official status has since been changed back to “registered/renewed”, but the brief appearance of the words “cancelled/expired” on the USPTO's database caused a significant stir among those watching the case.) Five days later, on August 8, Bacardi announced its plans to relaunch the Havana Club brand of rum in the United States, with rum made in Puerto Rico to the original Arechabala family recipe. (Bacardi has stated that these plans had been in the works for months and the timing of the announcement so soon after the USPTO decision was coincidental.) The following week, Pernod-Ricard filed a new suit against Bacardi in the US District Court for the District of Delaware. In this new complaint, Pernod-Ricard alleges in pertinent part that Bacardi's use of the HAVANA CLUB mark would mislead and deceive consumers because (i) the rum is not made in Cuba, and (ii) it is not the same product as that produced under the HAVANA CLUB brand before 1960. Notably, Pernod-Ricard has cast this element of the case to stand independent of the issue of who owns the HAVANA CLUB mark; rather, Pernod-Ricard claims that Bacardi's wrongful use of the mark would draw customers and market share from *all* of Pernod-Ricard's branded spirits (including, for example, MALIBU rum and STOLICHNAYA vodka). This would appear to provide a basis for standing to sue that will not stand or fall based on the Section 211 issues. In addition, Cubaexport is not a party to this latest case, also in an apparent effort to avoid Section 211's strictures on Cuban entities. (The complaint does also reassert the claim that Bacardi has no rights in the mark in the United States.) At the time of writing, Bacardi has not responded in substance to the complaint, but has moved to dismiss the case for improper venue or in the alternative have it transferred to the federal district court in Miami, Florida.

#### Much at stake

Why would these two parties spend so much time and money fighting over a mark that has not been used in the United States in over 40 years? Consider that while the latest sparring was going on this past summer, Castro underwent serious abdominal surgery and on July 31 turned over executive power (at least temporarily) to his brother Raul. Little has been released about 80-year-old Castro's condition and rumours are rampant that he is near death. This has sparked speculation that a reopening of the Cuban market may come sooner rather than later. And the business stakes are high. If a regime change happens in Cuba, JASA, Bacardi and many other

corporations stand ready to assert massive claims for compensation for their properties and businesses seized in 1960. Plus there is an enormous appetite for the product: Pernod-Ricard claims that it currently sells about 2.4 million cases of HAVANA CLUB rum per year; the current US market for rum is the world's largest and accounts for approximately 15 million cases per year. The prospect of entering that huge market with a decades-old brand which is redolent of images of pre-revolutionary Cuba, Ernest Hemingway and *son* music is clearly an opportunity that both Bacardi and Pernod-Ricard are willing to fight for. Layered over all of this are the still white-hot emotions felt by the Cuban expatriate community in the United States over Castro and his regime. This combination of politics, business and emotion is sure to have the HAVANA CLUB mark in the courts for some time to come. [WTR](#)

“ The prospect of entering that huge rum market with a decades-old brand which is redolent of images of pre-revolutionary Cuba, Ernest Hemingway and *son* music is clearly an opportunity that both Bacardi and Pernod-Ricard are willing to fight for ”

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