

Testimony of  
**Ms. Nancie Marzulla**

July 13, 2004

Hearing on an Examination of Section 211 of the Omnibus Appropriations Act of 1998.

Mr. Chairman and Members of the Committee:

Thank you for the opportunity of testifying today regarding this Committee's examination of Section 211 of the Omnibus Appropriations Act of 1998.

My name is Nancie Marzulla. I am President of Defenders of Property Rights, the nation's only nonprofit legal foundation dedicated exclusively to the protection of individual rights in the ownership and use of private property. Founded in 1991, Defenders works in the courts, the legislature, and in the marketplace of public opinion to preserve private property rights, a cornerstone of individual liberty.

I congratulate this Committee for its decision to examine the key role played by Section 211 in affirming the property rights--and thus the personal liberty--of those whose property has been expropriated without compensation (that is to say, confiscated) by the Cuban government in violation of international law and fundamental notions of human decency. S. 2373 and its companion bill, H.R. 4225, make minor technical corrections to Section 211, required to comply with a WTO ruling, while maintaining the substance of Section 211, which forbids the recognition of claims of title to U.S. trademarks based on a Cuban confiscation, except with the consent of the legitimate owner.

In our view, there is no justification for repealing Section 211, as the proponents of S. 2002 would do. That is not required by the WTO ruling, which emphatically upheld the principle that a state is entitled to establish ownership rules, such as Section 211, to determine who is or is not the legitimate owner of a trademark in its own territory. Nor is it justified by any policy that is consistent with our core values and long-standing principles of our law. Repealing Section 211 would violate those values and principles and send an unmistakable signal to tyrants around that the United States has lowered its guard and is prepared to extend to U.S. property the effects of foreign confiscatory decrees.

#### Property Rights and Human Liberty

Tyrants have long known that liberty is indivisible, and free men have long known that our cherished liberties of free speech, worship and assembly--as well as property rights--are interdependent. As the United States Supreme Court put it:

Property does not have rights. People have rights. The right to enjoy property without unlawful deprivation . . . is in truth a "personal" right. . . . In fact, a fundamental interdependence exists between the personal right to liberty and the personal right in property. Neither could have

meaning without the other. That rights in property are basic civil rights has long been recognized.

The Founding Fathers recognized that without security in the ownership of property, no other human liberty was safe. John Adams stated "[p]roperty must be secured or liberty cannot exist." Indeed, some have argued that "the right of property is the guardian of every other right, and to deprive a people of this, is in fact to deprive them of their liberty."

Modern courts have continued to recognize the importance of the right to private property as one preserved by founders in the interest of preserving liberty generally. The Delaware Supreme Court stated recently:

"Protecting the right to acquire and own private property was also of a paramount importance to the Framers of the United States Constitution. Invoking the philosophy of John Locke, John Rutledge of South Carolina told the delegates at the Philadelphia Convention that "property was certainly the principal object of Society." Alexander Hamilton stated, "One great [objective] of [government] is personal protection and the security of Property." According to Professor James Ely, "many provisions of the Constitution pertain to property interests and were designed to rectify the abuses that characterized the revolutionary era."

Thus, the protection of rights in property lies at the heart of our constitutional system of government. The Founding Fathers, in drafting the Constitution, drew upon classical notions of legal rights and individual liberty dating back to the Justinian Code, Magna Carta, and the Two Treatises of Government by John Locke, all of which recognize the importance of property ownership in a governmental system in which individual liberty is paramount. Concurrently, the Constitutional framers drew upon their own experience as colonists of an oppressive monarch, whose unlimited powers vested it with the ability to deprive its subjects of their God-given rights of "life, liberty, and property."

The United States Constitution imposes a duty on government to protect private property rights. Thus, within the Bill of Rights, numerous provisions directly or indirectly protect private property rights. The Fourth Amendment guarantees that people are to be "secure in their persons, houses, papers, and effects . . . ." The Fifth Amendment states that no person shall "be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use without just compensation . . . ." The Fourteenth Amendment echoes the Due Process Clauses of the Fifth Amendment, stating that no "state shall deprive any person of life, liberty, or property without due process of law . . . ." Additionally, the Contracts Clause of the Constitution indirectly protects property by forbidding states from passing any "Law impairing the Obligation of Contracts."

President Reagan, in announcing his intention to sign a Presidential Executive Order to protect private property rights, told Congress:

It was an axiom of our Founding Fathers and free Englishmen before them that the right to own and control property was the foundation of all other individual liberties. To protect these rights, the Administration has urged the courts to restore the constitutional right of a citizen to receive just compensation when government at any level takes private property through regulation or other means. Last spring, the Supreme Court adopted this view in *Nollan v. California Coastal Commission*. In a second case, the Court held that the Fifth Amendment requires government to

compensate citizens for temporary losses that occur while they are challenging such a government regulatory "taking" in court. In the wake of these decisions, this Administration is now implementing new procedures to ensure that federal regulations do not violate the Fifth Amendment prohibition on taking private property; or if they do take a citizen's property for public use, to ensure that he receives constitutionally required just compensation.

The United States currently occupies a unique position in the global economy. A decision on the part of our government to honor only those trademarks which have been legitimately acquired, not confiscated by oppressive regimes, sends a clear message to the world that the United States cares deeply about the fundamental right to private property. It is also faithful to the design of our Constitution, which enshrines the Founders' vision of a nation conceived in liberty and respectful of individual rights.

### U.S. Trademarks Are Protected Against Foreign Confiscatory Measures

Trademarks are property. They display the hallmark of property rights--the ability to exclude others from use and concurrent ownership. As the Supreme Court has recently stated: "[T]rademarks... are the 'property' of the owner because he can exclude others from using them." The Court has further stated: "Trademark law, like contract law, confers private rights, which are themselves rights of exclusion. It grants the trademark owner a bundle of such rights."

A trademark used in connection with products sold in the United States is property located in this country. "[T]rademarks registered in this country are generally deemed to have a local identity- and situs-apart from the foreign manufacturer."

Because trademarks are territorial and because takings without just compensation are against our most fundamental public policy, the U.S. has always refused to extend to U.S. trademarks the effects of a foreign confiscation. As one court has put it,

[I]t is settled by a long line of cases that "our courts will not give 'extra-territorial effect' to a confiscatory decree of a foreign state, even where directed against its own nationals." Thus "foreign confiscatory decrees purporting to divest nationals and corporations of the foreign sovereign of property located in the United States uniformly have been denied effect in our courts. . . ."

Consistent with American dedication to property rights as a cornerstone of liberty, Cuban expropriation decrees are not enforceable to deprive the rightful owner of title to trademarks in this country:

We hold that it is our duty to assess, as a matter of federal law, the compatibility with the laws and policy of this country of depriving the original owners of the Malta Cristal trademark of that property without compensating them for it. We conclude that such a deprivation without compensation would violate bedrock principles of this forum, embodied in the Fifth Amendment to the Constitution. . . . [I]n tracing ownership of United States property cast adrift by the "extraordinary and basically unfair measure" of expropriation without compensation, "our courts have developed a willingness to disregard technicalities in favor of equitable considerations."

One especially critical aspect to trademark protection is the maintenance of a company's reputation and the goodwill that that name generally inspires. Depriving an individual of the private property right to a trademark functions as a twice-over violation of property rights. In addition to significantly impairing the owner's ability to sell the product, the individual who steals the trademark also sells one's own product, a competitor good, much more efficiently and profitably than one otherwise would have.

The courts of the United States, both at the lower levels and in the Supreme Court, have recognized formally that the right to trademark one's work and sell it as one's own is not bounded by the borders of nation-states. When the French government, in the early part of this century, expropriated the Chartreuse trademark in France and later attempted to assert rights on the corresponding U.S. trademark, our Supreme Court rejected the effort. Said the Court in *Baglin v. Cusenier Co.*, 221 U.S. 580, 596 (1911), "[t]he French law cannot be conceived to have any extraterritorial effect to detach the trademarks in this country from the product of the monks, which they are still manufacturing."

Even if the state is recognized as the rightful owner to the trademark within its own territory, the courts of this nation must continue to respect the property and trademark rights of true owners. In *Zwack v. Kraus Bros. & Co.*, the Second Circuit Court of Appeals found that although the Hungarian government had expropriated a trademark within its borders, "it does not follow that courts in this country must recognize Hungarian claims of title to property situated in this country or rights with respect to commerce in this country which were acquired only by coercion practiced on the owners without substantial consideration."

The current Cuban regime's confiscation of a number of trademarks after its rise to power was undoubtedly contrary to the values embodied in our Fifth Amendment. The United States should not endorse this action, so repugnant to the principles upon which our country was founded.

#### Section 211 Should Be Retained and Amended to Comply with WTO Requirements

In 1960, the Castro revolutionary government adopted the so-called Law 890, which confiscated the assets, including trademarks, of virtually the entire diversified Cuban-owned industrial sector. The Cuban government has consistently taken the position that Law 890 applies extraterritorially to property (including trademarks) located outside Cuba, and has succeeded in taking control of several trademarks abroad. Since Law 890 was enacted, the Cuban government has exploited the confiscated trademarks without paying any compensation to the legitimate owners. Following the loss of its Soviet subsidies, the Cuban government has sought to increase the profits of that exploitation by transferring certain confiscated trademarks to joint ventures between Cuba and foreign companies.

In 1998, Congress enacted Section 211 to provide a bright-line statutory rule of law in response to this flagrant violation of property rights. Section 211 was needed because the Lanham Act does not contemplate the cancellation of trademarks based on a foreign confiscation and the U.S. Patent and Trademark Office normally does not apply non-statutory doctrines such as the principle that foreign confiscatory measures have no effect on U.S. property.

Although Section 211 contained a technical defect, its fundamental concept is sound. The defect is a purely theoretical one: on its face, it does not apply to U.S. nationals, even though U.S. nationals are subject to similar rules under other provisions of U.S. law. But because there is a distinction on the face of the statute, the WTO found a violation of the national-treatment and most-favored-nation treatment of the Agreement on Trade Related Aspects of Intellectual Property (TRIPs).

Clearly, Congress owes a duty to the World Trade Organization Court to comply with TRIPs. This can be done without depriving rightful trademark owners of the protection to which they are entitled under the core values of our system. In order to ensure that Section 211 is consistent with TRIPs and the Paris Convention, Congress need only amend Section 211 to make sure that it applies to all persons, regardless of nationality.

Any other solution would turn its back on the fundamental principles of property right protection upon which this nation was founded.

I would be happy to respond to any questions the Committee may have.