Testimony of

Mr. William Reinsch

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Thank you, Mr. Chairman. My name is William Reinsch, and I am President of the National Foreign Trade Council, which represents 300 American companies who trade and invest abroad.

Mr. Chairman and Members of the Committee, thank you for your invitation to provide testimony concerning an important intellectual property issue that, if not resolved correctly, will have adverse effects on the U.S. business community as a whole, especially more than 400 companies that currently have trademarks registered in Cuba. At stake are the 5000 trademarks these companies have registered in Cuba, and the leadership of the United States in intellectual property policy.

On behalf of NFTC, I am testifying today to endorse S. 2002, the "U.S.-Cuba Trademark Protection Act." S. 2002 would repeal Section 211 of the FY 1999 Department of Commerce and Related Agencies Appropriations Act, remedying the U.S. breach of obligations under the General Inter-American Convention for Trademarks and Commercial Protection and removing any pretext for the Castro regime to retaliate against trademarks currently registered in Cuba by U.S. companies. S. 2002 would ensure continued U.S. leadership on intellectual property issues through the establishment of heightened standards, while also bringing the U.S. into compliance with all existing treaty obligations.

My remarks today are on behalf of my organization, but they are consistent with a number of trade associations and companies that are already on the record in supporting S. 2002 or its identical House companion, H.R. 2494. These trade associations include the Grocery Manufacturers of America, CapNet, the Coalition for Employment through Exports, and the Organization for International Investment. Among the major U.S. companies supporting this legislation are Caterpillar, Dupont, Eastman Kodak, and the "Big Three" automakers, DaimlerChrysler, Ford Motor Company, and General Motors. As expressed in the attached letters, these trade associations and companies all support repeal of Section 211 because it exposes the invaluable brand names of U.S. businesses to legal jeopardy.
Section 211 of the FY 1999 Omnibus Appropriations Act prohibits the U.S. from honoring trademarks of Cuban origin that are the same or substantially similar to those used in connection with businesses that were nationalized by the Cuban government in the early 1960s. Section 211 was enacted solely to help one of the litigants in a particular dispute before the U.S. courts, but, if maintained, its long term impact may well be to invite retaliation by Cuba, which could jeopardize trademark protection for over 5,000 U.S. trademarks currently registered in Cuba by more than 400 American companies. It has no benefits for the U.S. business community and is far more likely to cause significant damage.

I am also here to note the insufficiencies inherent in S. 2373, or other attempts to achieve WTO compliance concerning Section 211 short of full repeal. Permit me to summarize the unhappy

legacy of Section 211 and the dubious promise of S. 2373. For the benefit of a single company , the supporters of Section 211 and S. 2373 are asking the Congress (i) to make it more difficult for U.S. companies to enforce their trademarks and trade names in U.S. courts against counterfeiters and infringers, (ii) to keep U.S. companies exposed to the risk of retaliation abroad and the type of injury suffered in South Africa, and (iii) to continue putting U.S. law at cross-purposes with longstanding principles of U.S. trademark law and important intellectual property and trade policy objectives of the U.S. business community and the U.S. Government.
Despite the over four-decade-long embargo on trade with Cuba, both countries have reciprocally recognized trademark and trade name rights since 1929 as signatories to the General Inter-American Convention for Trademarks and Commercial Protection. Both Cuba and the United States are parties to the Inter-American Convention, and the treaty remains in force between the United States and Cuba notwithstanding the embargo on trade between the two countries. U.S. federal courts recently reiterated the enduring vitality of the Inter-American Convention, and treated it and the Paris Convention for the Protection of Industrial Property as cornerstones of trademark and trade name relations between the two countries.

The continuation of this essential policy paves the way for future U.S. commercial engagement, and guards against prejudice to valuable intellectual property rights in the interim. Currently, under the Trade Sanctions Reform and Export Enhancement Act of 2000, American companies are legally exporting branded food and medical products to Cuba for the first time since the adoption of the embargo, making these protections all the more essential. But Section 211 contradicts this prudent policy in far-reaching ways that threaten to expose the trademarks and trade names of U.S. companies to retaliation in Cuba.

Section 211 violates the Inter-American Convention because it denies registration and renewal of trademarks on grounds other than those permitted by Article 3, which requires registration and legal protection "upon compliance with the formal provisions of the domestic law of such States." By prohibiting U.S. courts from recognizing rights arising from prior use of a trademark in another treaty country, or from determining whether an earlier U.S. trademark has been abandoned, Section 211 expressly violates Article 8 and Article 9. By prohibiting U.S. courts from recognizing certain trade name rights, Section 211 violates Articles 18, which gives the owner of an existing trade name in any treaty signatory the right to obtain cancellation of and an injunction against an identical trademark for similar products. And, by depriving U.S. courts of the authority to issue injunctions and other equitable relief against trademark or trade name infringement, Section 211 violates Articles 29 and 30.

Unlike disputes under other agreements, dispute settlement does not appear a practical means for the United States and Cuba to try to resolve their disagreement. Because Section 211 specifically denies U.S. courts the authority to enforce the "treaty rights" otherwise available to a party (including those available under the Inter-American Convention), it obviates Article 32 of the Inter-American Convention, which provides for national courts to resolve questions of interpretation.

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

Fidel Castro and his foreign relations officials have on several occasions threatened to withdraw the protections afforded by the Inter-American Convention, which include a number that are not afforded by the Paris Convention. Withdrawing these protections would put in considerable doubt the trademark and trade name rights of U.S. companies in Cuba. But, should Congress fail to repeal Section 211, the United States will have handed the Castro regime the legal grounds for withdrawing these protections.

Whether the Castro regime eventually makes good on its threats is anyone's guess. But, given the experience of NFTC members in South Africa, we are reluctant to wager on an outcome that could significantly injure the trademark rights of U.S. companies in Cuba and even third countries. Possible suspension of the Inter-American Convention would prejudice and possibly lead to the loss of the trademark and trade name rights of companies in Cuba, amid doubts that the U.S. Government could compel Cuba to change its ways. Indeed, merely the lingering threat of action by the Castro regime exposes the trademarks and trade names of U.S. companies to legal uncertainty.

Therefore, the prospects for the trademark and trade name rights of U.S. companies to be prejudiced and perhaps even lost is all too real. Today, because of Section 211, U.S. companies face the likelihood of a repeat of their difficult and, for some, costly experience in the Republic of South Africa when the United States began lifting its sanctions in the early 1990s. This is a cautionary tale because it demonstrates the mischief that results when trade embargoes inhibit reciprocal trademark recognition.

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

Had the U.S. government maintained consistent and predictable intellectual property relations with South Africa during the U.S. embargo, it would have spared many U.S. companies significant legal expense and loss of trademark goodwill, while facilitating reform in that country. It would be unfortunate if American companies were required to do the same in Cuba because Congress failed to repeal Section 211. According to a recent survey conducted for the American Intellectual Property Law Association, the median inclusive costs of a trademark infringement suit in the United States ranged from $298,000 to over $1 million.

This cautionary tale should be a carefully heeded lesson as we consider how best to maintain a consistent and predictable intellectual property policy with Cuba during the longstanding U.S. trade embargo of that country, and thus remove the threat of retaliation against the trademarks of U.S. companies that are registered there. Indeed, the Bush Administration's Commission for

Assistance to a Free Cuba quite rightly has recognized the potential problem that U.S. companies may encounter in Cuba. In its report issued on May 6, the Commission states "Ensuring protection for intellectual property and pursuing vigorous enforcement of IPR laws and regulations will be one key to attracting additional foreign investment." The Commission recommends:
The U.S. Government should encourage a Cuban transition government to provide assurances that it will continue to uphold its obligations under intellectual property agreements. Doing so early in the process would be an incentive to foreign investment and thereby facilitate Cuba's move to a free-market economy.

The Commission further recommends:
In the area of trademarks and patents, the U.S. Government should be prepared to assist a free Cuba to develop a modern trademark and patent registration mechanism and appropriate legal protections. The U.S. Government also should work with a Cuban transition government to address trademarks and patents in dispute.

S. 2002 was designed with precisely these objectives in mind. It puts forward a set of measures designed to maintain consistent and predictable protection for the trademarks of Cuban entities registered in the U.S., with the objective of ensuring protection for the trademarks of U.S. companies in Cuba, both now and during the post-Castro transition to a market economy. By repealing Section 211 in its entirety, HR 2494 seeks to deny the Castro regime any rationale for retaliating against trademarks of U.S. companies, and to gain assurances from the Cuban government that it will continue to uphold its obligations under international intellectual property agreements. S. 2002 also proposes the following steps in establishing consistent intellectual property relations:
? Establish a shadow registry in the United States of currently registered U.S. marks in Cuba, enabling US nationals to search established marks for potential conflicts without paying a fee to Cuba;
? Establish a registry of "well known" marks established in Cuba prior to the revolution, giving US nationals the ability to identify efforts to infringe on their marks in the interim;
? Promote the rule of law in Cuba by providing Cuba with incentives to adopt internationally recognized standards for resolving disputes over Internet domain rights; and
? Clarify that U.S. nationals have a general license to pursue all means of maintenance and enforcement of trademark holders' rights against Cuban infringement.
The alternative proposal of S. 2373 is to amend Section 211 to apply it to both U.S. nationals and foreign trademark holders. However, such an amendment has significant drawbacks when compared with repealing Section 211 in its entirety, as S. 2002 would do. Because S. 2373 would do nothing to address the inconsistencies of Section 211 with the Inter-American Convention, the trademark and trade name rights of U.S. companies would remain exposed to possible prejudice and loss in Cuba, as explained above, and the U.S. Government may find its practical ability to help severely constrained.

In addition to the risk to U.S. companies abroad, S. 2373 would also lead to increased litigation and legal uncertainty at home. Indeed, U.S. companies seeking to enforce their trademark and trade name rights against infringers and counterfeiters would likely be faced with the ill-begotten progeny of Section 211 -- "zombie" trademarks. No, this is not a dark fantasy of director George

Romero, but a real problem for U.S. trademark and trade name owners.

By making U.S. nationals subject to the restrictions of Section 211, S. 2373 apparently creates a new defense - independent of the Lanham Act - for trademark infringement and counterfeiting. At issue would be whether the trademark and trade name rights being asserted by a U.S. national are "the same or substantially similar" to a trademark that was used in connection with a business in pre-Castro Cuba and confiscated over 40 years ago. If so, U.S. courts would be precluded from recognizing or enforcing the trademark or trade name rights against infringers and counterfeiters unless the trademark owner first obtains the consent of the owner or successor of that business in Cuba.

Under existing law in the Lanham Act, a trademark is presumed to be abandoned, and thus cannot be used to impose liability on third parties, when it has not been used for two years of non-use, and there is no intent to resume using it. Under Section 211, however, U.S. courts are precluded from considering whether trademark rights in the U.S., held in connection with a business in pre-Castro Cuba, have been abandoned.

As a result, while these trademarks would be considered "dead" and thus without legal rights under longstanding trademark law, they are "undead" under Section 211 because their owners - who may have long since died or cannot be located - and their successors can deny their use by third parties for an indefinite and unlimited period of time. That is why we call them "zombie" trademarks. They illustrate how Section 211 departs from fundamental principles of U.S. trademark law and threatens to causes headaches for the very U.S. businesses that law is supposed to protect.

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

These "zombie" trademarks are clear examples of how Section 211 has put the U.S. Government at cross-purposes in its efforts to provide adequate and effective legal protection for trademarks and trade names abroad. In defending Section 211 before a dispute settlement panel of the World Trade Organization, the United States asserted that the restrictions of Section 211 would not apply if the earlier trademark or trade name had been abandoned. While the WTO proceeding was in progress, however, no less a trademark authority than the U.S. Court of Appeals for the Second Circuit ruled that Section 211 as enacted by Congress provided no such abandonment exception. Moreover, while the USTR was defending Section 211 and its creation of a class of trademarks insulated from the conventional rules of abandonment, the same USTR has been calling on our trading partners to adopt rules for trademark abandonment consistent with the Lanham Act in the Free Trade Agreement of the Americas and other free trade agreements.

S. 2373 would also require the courts to decide whether the U.S. company asserting trademark or trade name rights" knew or had reason to know" that its trademark or trade name "was "the same or substantially similar" to a trademark that was used in connection with a business - any business -- in pre-Castro Cuba . This question might be difficult or expensive to answer. In addition, S. 2373 would require the courts to determine whether such the trademark owner knew or had reason to know "at the time when the person or entity acquired the rights asserted" - which in the case of certain U.S. companies could be over 100 years ago. If experience is to be our guide, such a significant change in U.S. trademark law is likely to result in substantial new burdens on U.S. trademark owners in the form of increased and vexatious litigation, discovery "fishing expeditions," increased legal costs of hundreds of thousands if not millions of dollars, and reduced legal and business certainty.

In conclusion, Section 211 and S. 2373 benefit only a single company, and promise no benefits for U.S. business. Rather, Section 211 and S. 2373 will make it more difficult for U.S. companies to enforce their trademarks and trade names in U.S. courts against counterfeiters and infringers, to keep U.S. companies exposed to the risk of legal uncertainty and retaliation abroad, and continue putting U.S. law at cross-purposes with longstanding principles of U.S. trademark law and important intellectual property and trade policy objectives of the U.S. business community and the U.S. Government.
For NFTC members, this is a bad bargain that harms both U.S. business and U.S. national interests. Instead, we urge Congress to repeal Section 211 in its entirety and enact S. 2002. Repeal of Section 211 is the only means that will provide full compliance with all current U.S. trade obligations and deny other governments any rationale for suspending their treaty obligations or retaliating against the trademark and trade name rights of U.S. businesses.

The United States has long been a leader in securing intellectual property rights globally. S. 2002, the U.S.-Cuba Trademark Protection Act, seeks to further this cause, seeking assurances that American trademarks and trade names will be protected now and during the transition to a post-Castro market economy in Cuba while removing the specter of retaliation. In contrast, the "zombie" trademarks created by S. 2373 and Section 211 threaten to overshadow the important contributions being made by the Congress and the Executive Branch to a consistent and predictable international intellectual property policy that serves the needs of U.S. business.