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Trademarks

RUM WARS TEST WORLD TRADE ORGANIZATION

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Truly epic legal fights never die--they just move to another forum. At least that's the case in the bruising trademark battle between Bacardi Ltd. and Pernod Ricard over the rights to Havana Club Rum.

When the U.S. Supreme Court turned down Pernod's appeal on Oct. 12, Havana Club Holdings S.A. v. Galleon S.A., 62 F. Supp. 1085 (S.D.N.Y. 1999), aff'd 203 F. 3d 116 (2d Cir. 2000), cert. denied, U.S. 92-1957, 10/12/00, the French liquor giant lost the game, set and match in the United States, outmaneuvered by Bacardi both in court and in Congress.

But now it's turnaround time.

Joining bananas, hormone-treated beef and tax law as a point of friction in trans-Atlantic trade relations, the dispute, which has its roots in pre-revolutionary Cuba, has been taken up by the World Trade Organization at the request of the European Union. Some observers believe the battle may undermine the position of the United States as a leading advocate for global protection of intellectual property rights.

In late September, the WTO authorized the formation of a panel of neutrals to determine whether a narrow U.S. law that has been a linchpin of Bacardi's legal triumph here violates a WTO agreement on intellectual property. A decision could come as early as this summer.

Bacardi quietly lobbied to have the provision, known as ¤ 211, inserted into the massive FY 1999 omnibus appropriations bill. It bars U.S. courts from enforcing trademarks or trade names used in connection with businesses confiscated by the Castro regime unless the original owner expressly consents.

"Bacardi has put the entire country's trade policy at risk," said Mark Orr, Pernod Ricard's D.C.-based vice president of North American affairs. "The WTO is going to rule very clearly that 211 is a violation of U.S. obligations."

If that happens, unless Congress modifies or repeals the law, the trade body has the power to slap steep retaliatory tariffs on a wide range of U.S. goods.

But Bacardi counsel William Golden Jr., a partner at New York's Kelley, Drye & Warren, argues that ¤ 211 falls well within the bounds of international jurisprudence. "A thief never gets good title," he said,

explaining that the provision simply "closes a loophole that adversely affected people who had their trademarks confiscated in Cuba without compensation."

At the top of that list would be the Arechabala family--the original owners of Havana Club, who had their rum operations seized by the Castro regime in 1960. After the revolution, the Arechabala family fled to the United States. Once they got here, the family, no longer in the liquor business, let the Havana Club U.S. trademark registration lapse in 1973.

The mark was scooped up by the Cuban government, which registered it with the U.S. Patent and Trademark Office in 1976.

"The Cuban government stole the trademark," said Jorge Rodriguez- Marquez, Bacardi's vice president of corporate communications. The Arechabala family, he said, was "totally wiped out, so they didn't renew their license. The Cuban government took advantage of that knowingly."

The government went on to form a joint venture with Pernod Ricard to sell Havana Club internationally. Last year, they sold 1.25 million cases of the rum in 75 countries. Because of the U.S. embargo against Cuban goods, the rum has not been available here.

Meanwhile, the exiled Arechabala family joined forces with Bacardi in 1994 to try to regain the family's trademark rights both in the United States and around the world.

The inevitable collision came in 1996 after Bacardi started selling its version of Havana Club in the United States.

The Pernod Ricard/Cuba joint venture sued to stop Bacardi. But Pernod lost the straight trademark infringement claim early on when Judge Shira Scheindlin ruled that Cuba's transfer of the Havana Club trademark rights to the joint venture was invalid. Pernod tried again, filing an amended complaint claiming trade name infringement.

Signed into law in the midst of the litigation, ¤ 211 killed Pernod's trade name infringement claim, the judge ruled. The judge also held that ¤ 211 will render Pernod's pending application to fix the faulty trademark transfer all but worthless, since courts are barred from recognizing Cuban-origin marks obtained without the original owner's approval.

While Bacardi's lobbying coup effectively squashed Pernod in the United States, it has not played well with some international business groups.

"It's sort of Third World tactics for a legislature or parliament to jump into a dispute and put its thumb on the scale," said Todd Malan, the D.C.-based executive director of the Organization for International Investment, which filed an amicus curiae brief with the Supreme Court urging it to take up the case. "When the U.S. Congress does that, how are we going to tell the Indian parliament or the Argentinian parliament that they can't intervene in a particular dispute? It strikes us as unfair and a bad precedent."

But, apparently operating under the theory that what's good for the goose is good for the gander, Pernod Ricard convinced the EU to jump into the fight. The grounds: . 211 violates the WTO's agreement on Trade-Related Aspects of Intellectual Property, or TRIPS.

The EU said it objects to ¤ 211 because "it treats certain foreign right-holders with Cuban assets less favorably than U.S. right holders."

Pernod lawyer Mark Traphagen, a partner at the D.C. office of Atlanta's Powell, Goldstein, Frazer & Murphy who has advised EU lawyers on the case, elaborated: "It's a cornerstone of intellectual property treaties that all parties are to treat the nationals of other countries as well as you treat your own nationals," he said. "Second, you don't discriminate among other foreign nationals. You treat them all on the same basis."

Perhaps more significantly, the EU argues that ¤ 211 violates TRIPS because "a trademark registration and its enforcement before courts cannot be made

conditional on the consent of a trademark owner who has abandoned his rights."

Or, as Mr. Traphagen puts it, "It's like the hand from the grave."

But Bacardi counters that such objections lose sight of the bigger picture.

"The U.S. can do very little in terms of confiscation in Cuba, but we will not give recognition of that confiscation in the U.S.," said Peter Schneidereit, a D.C.-based in-house lawyer for Bacardi. "Basically, that would be rewarding the confiscator." A similar provision exists in French law, he noted, in cases involving Russians who had assets seized in the Russian Revolution of 1917.

Sec. 211 provides a legitimate mechanism to obtain Cuban-origin trademark rights, Mr. Schneidereit added. "All you need to do is come to a deal with the original owner," he said, noting that Pernod originally tried to strike a deal for Havana Club with the Arechabalas, but failed.

The next step in the case is selection by the parties of three neutrals for the WTO panel, an often slow proceeding based on consensus.

The team from the U.S. Trade Representative is being led by associate general counsel Daniel Mullaney, but questions have been raised about just how eager the agency is for this fight.

In a 1998 internal memo first published by the newsletter "Inside U.S. Trade," Assistant U.S. Trade Representative for Congressional Affairs Elizabeth Arky told agency head Charlene Barshefsky flat-out that ¤ 211 "is problematic because it violates our obligations under the TRIPS agreement."

While not disputing the authenticity of the memo, USTR spokesman Todd Glass notes that it "was not written by the USTR's general counsel's office and does not represent our legal views on the issue." He adds, "We will vigorously defend our laws."

To Mr. Schneidereit, the WTO proceedings are little more than sour grapes on the part of a bitter but well-connected loser.

With a seeming lack of irony, he describes the case as a private matter between the two companies, one in which government intervention is unwarranted.

"This is truly a misuse of the WTO dispute settlement system," he said. "It's a relatively new system, and it's a very good system, but it was never, ever designed to serve as yet another level of appeal for private litigants."

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