UNITED STATES–SECTION 211 OMNIBUS APPROPRIATIONS ACT

(DS176)

EXECUTIVE SUMMARY

FIRST SUBMISSION

OF THE

UNITED STATES OF AMERICA

January 5, 2001

EXECUTIVE SUMMARY

Introduction

1. The core issue presented by this dispute is whether the TRIPs Agreement requires the United States to recognize and enforce trademarks used in connection with assets that have been confiscated – *i.e.,* expropriated without compensation – from their rightful owners. It does not. Under U.S. law -- both section 211 and long-standing case law -- those whose claim to a trademark is based on an uncompensated confiscation of assets cannot claim rights of ownership in the United States, absent consent of the owners whose assets were confiscated. Indeed, this is a principle that has been widely recognized throughout the world, and, in particular, by many WTO Members. The EC view in this dispute, by contrast, is that a person's assets may be confiscated by a governmental authority which can then, invoking TRIPs and the Paris Convention, enforce those "rights" in the United States in a manner contrary to U.S. law. TRIPs does not require such a result, and the negotiators of TRIPs could not have intended such a result.

2. It is an established rule of customary international law that a State may not expropriate private assets of nationals of other States in its territory unless the expropriation is (1) for a public purpose, (2) on a non-discriminatory basis and in accordance with due process of law, and (3) subject to prompt, adequate and effective compensation. In numerous judicial decisions spanning the past century, courts throughout the world -- and specifically in the United States and the EC -- have found similarly under their laws that foreign confiscatory decrees should be denied recognition in the forum States because they are repugnant to the nation's basic principles with respect to private property rights. The unifying theme of the European and American court decisions on this issue – and those of other countries as well -- is that a foreign confiscation is contrary to the basic principles of the forum and will not be given effect in it.

Overview of Section 211

3. Section 211 was enacted to reaffirm this principle with respect to trademarks, trade names and commercial names used in connection with businesses confiscated by Cuba, and to reaffirm and clarify the rights of the legitimate owners of such marks and names. Section 211(a)(1) provides that, absent consent of the original owner, a general license from the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") is unavailable for the registration or renewal of any trademark that is the same as or substantially similar to one used in connection with a business confiscated by Cuba. Generally speaking, under U.S. law, all transactions involving property under U.S. jurisdiction in which a Cuban national has an interest require a license from OFAC. OFAC's regulations recognize two categories of licenses for this purpose: specific licenses and general licences. A general license is a standing authorization for certain types of transactions that is set forth specifically in OFAC's regulations. A specific license, by contrast, is one whose precise terms are not set forth in OFAC's regulations. Generally, a person wanting to engage in a transaction for which a general licence is not available applies to OFAC for a specific license.

4. As a complement to section 211(a)(1), section 211(a)(2) prevents the confiscating government and its successors in interest from asserting rights of ownership in trademarks used in connection with confiscated assets in U.S. courts. It directs that "[n]o 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." The term "designated national" is defined in the statute to include Cuba, any national of Cuba, any specially designated national, and any national of a foreign country that is a successor-in-interest to a designated national. Section 211(b) is a provision parallel to Section 211(a)(2). Whereas Section 211(a)(2) protects the rights of legitimate owners vis-à-vis designated nationals or their successors who would attempt to claim confiscation-derived trademark rights under common law or a registration, Section 211(b) extends this prohibition to designated nationals or their successors that base their U.S. trademark registration on foreign registrations, through domestic laws intended to implement treaties. Section 211(b) prohibits the enforcement in the United States of rights based on foreign registrations in the case of a trademark, trade name, or commercial name confiscated by Cuba, except with the consent of the original owner.

5. Contrary to the EC's assertions, none of these provisions is inconsistent with the TRIPs Agreement or the Paris Convention provisions cited by the EC in its first submission.

Section 211(a)(1)

6. With respect to section 211(a)(1), nothing in Paris Convention Article 6 *quinquies* A(1) (through TRIPs Article 2.1) or in TRIPs Article 15.1 requires the United States to accept the registration or renewal of trademarks, if the person registering or renewing the trademark registration is not the true owner of the trademark under U.S. law. Indeed, neither the TRIPs Agreement nor the Paris Convention dictates who Members must recognize as the owner of a trademark. That decision is left to the domestic law of the Members.

Paris Convention Article 6 *quinquies*

7. Article 6 *quinquies* provides a limited exception to the rule that it is the Member's national laws that determine the conditions for filing and registration of trademarks. It in no way interferes with the United States' ability to determine whether the applicant is the proper owner of the trademark. Article 6(1) sets forth the general rule that "[t]he conditions for the filing and registration of trademarks shall be determined in each country of the Union by its domestic legislation". Articles 2 and 3 of the Paris Convention guarantee to all nationals of other Members the same rights that a Member grants to its own nationals ("national treatment").

8. Article 6 *quinquies*, by contrast, is aimed at the *exceptional* circumstance in which a national of a Member, who has a registered trademark in his country of origin, claims *better* than

national treatment with respect to a registration of his trademark in its original form in another Member. This provision was necessary because of differences in domestic legislation with regard to the form of the trademark. Where, for instance, domestic legislation prohibited foreign words or simple numbers or letters from being registered as a trademark, a national of one Member might be precluded from registering his trademark even under national treatment principles. This was contrary to the interests of owners of trademarks and the public in having the same trademark apply to the same goods in various countries.

9. To address this situation, in which a trademark registered in one Member might not otherwise be registrable in another member *because of its form* (*e.g.*, because it is in a foreign language or contains numbers), Article 6 *quinquies* provides an exceptional "national treatment 'plus'" avenue:

> Every trademark duly registered in the country of origin shall be accepted for filing and protected as is [in the authentic French text, *telle quelle*] in the other countries of the Union, subject to the reservations indicated in this article.

10. Under the exceptional circumstances in which Article 6 *quinquies* is invoked, therefore, Members are obliged to accept trademarks duly registered in the country of origin for filing and registration, if the only objection to the trademark is that it does not comply with the provisions of domestic law concerning the permissible form of a trademark. Nothing in Article 6 *quinquies* prevents Members from applying other provisions of their domestic law to trademark applications under Article 6(1).

11. Further, nothing in Article 6 *quinquies* requires the United States to accept for filing and protection trademarks that, although duly registered in the country of origin, are not duly registered by the persons that the United States considers under its domestic laws to be the proper owners of the trademark. The exceptional circumstance represented by Article 6 *quinquies* – where the United States might be required to accept a trademark that is inconsistent with U.S. law *as to the form of the trademark* – cannot reasonably be read to require the United States to accept and protect a trademark filed by the person who, under U.S. law, is not the legitimate owner.

12. Even assuming, for the sake of argument, that the scope of paragraph (A)(1) of Article 6 *quinquies* of the Paris Convention could be interpreted as not being limited to the form of a trademark, section 211(a)(1) would still not be contrary to this article, because of the exceptions or reservations set forth in paragraph (B).

13. Under Article 6 *quinquies* (B), the Members of the Paris Union have reserved the right to deny registration to, or to invalidate, a foreign-origin trademark when such a registration would be "contrary to . . . public order." It is plain that any exception based on "*ordre public*" would

include the principle of non-recognition of foreign confiscations.[1] The customary international law on expropriation is clear: a State may not expropriate private assets of nationals of other States in its territory unless the expropriation is (1) for a public purpose, (2) on a non-discriminatory basis and in accordance with due process of law, and (3) subject to prompt, adequate and effective compensation. It is on the basis of "*ordre public*" that courts in Europe, the United States, and elsewhere around the world have refused to give effect in the forum to claims of title based on a foreign confiscation. In particular, courts in many countries of the world -- and in particular those in Europe and in the United States -- have declined to recognize claims of title to trademarks that were expropriated without compensation. While courts justify their decisions in accordance with the technical peculiarities of each system, the conclusions they reach are consistent: the forum will refuse to give extraterritorial effects to a claim of title derived from a foreign confiscation because such confiscation is contrary to the "*ordre public*" of the forum.

14. Accordingly, even if the Panel came to the view that Article 6 *quinquies* (A)(1) contains an obligation to register and protect a trademark on behalf of a person that the United States does not consider the owner of the trademark -- a view that the United States believes is incorrect -- the "*ordre public*" exception in Article 6 *quinquies* (B) would excuse the United States from such an obligation where the result would be to give extraterritorial application to foreign confiscations. Therefore, Section 211(a)(1) cannot be inconsistent with the obligations of the United States under Article 6 *quinquies* of the Paris Convention.

TRIPs Article 15.1

15. Section 211(a)(1) is not inconsistent with TRIPs Article 15.1. Article 15.1 defines eligible subject matter of trademarks and limits the ability of Members to claim that a trademark is not capable of constituting a trademark, and is therefore not eligible for registration, because of the form of the trademark. It does not contain an affirmative obligation to register all eligible trademarks. For instance, under Article 15.1, a Member could not refuse trademark registration on the grounds that it is made up of personal names, or of letters, or on other grounds related to form, so long as the signs of which the trademark is composed are capable of distinguishing the goods or services or one undertaking from another. Article 15.2 emphasizes that this does not

[1] As discussed above, the United States does not believe that Article 6 *quinquies* (A) imposes an obligation to accept for filing and protect all trademarks filed in Member countries, if, under U.S. law, the filing entity is not the true owner of the trademark. Therefore, the United States does not believe that the exceptions under Article 6 *quinquies* (B) are relevant. However, were Article 6 *quinquies* (A) considered to impose such an obligation, the "*ordre public*" exception under Article 6 *quinquies* (B) would encompass the principle against the recognition of foreign confiscations.

In the view of the United States, any exception to obligations under the Paris Convention based on "*ordre public*" should be narrowly drawn.

mean that a Member is prevented from denying registration of a trademark on other grounds, provided such other grounds do not derogate from the provisions of the Paris Convention.

16. The restrictions imposed by section 211(a)(1) are not based on the form of the trademark. Section 211(a)(1) is concerned with trademarks, regardless of the form, that are similar or identical to trademarks used in connection with assets confiscated without compensation, and are being registered without the permission of the original owner. For this reason, section 211(a)(1) is not inconsistent with Article 15.1.

17. In any event, assuming, for the sake of argument, that Article 15.1 of the TRIPs Agreement could be interpreted as imposing on Members an independent affirmative obligation to register those trademarks that it declares "eligible for registration," such an obligation would be limited by Article 15.2, which provides that Article 15.1 does not "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)." Therefore, Article 15.1 does not prevent a Member from denying registration of a trademark on other grounds, as long as doing so is not inconsistent with the Paris Convention. Because nothing in section 211(a)(1) is inconsistent with the Paris Convention, section 211(a)(1) is not inconsistent with TRIPs Article 15.1.

Sections 211(a)(2) and 211(b)

TRIPs Article 16.1

18. Sections 211(a)(2) and 211(b) are not inconsistent with Article 16.1 of the TRIPs Agreement. Article 16.1 confers certain rights on the "owner" of a "registered trademark", notably the exclusive right to prevent third parties not having the owner's consent from using the trademark under certain circumstances. Sections 211(a)(2) and 211(b) can only violate Article 16.1, therefore, if they prevent the owner of a registered trademark from asserting his exclusive rights vis-a-vis third parties. Section 211(a)(2) and 211(b) do not do this, for two reasons. First, under section 211, a person who traces his "rights" to an uncompensated confiscation is not an owner of the trademark under U.S. law, and is in no position to assert any rights under TRIPs. Nothing in TRIPs requires the United States to confer ownership status on a person who traces his purported ownership status to an uncompensated confiscation. Second, with respect to the assertion of "common law rights" under section 211(a)(2) – *i.e.*, those rights based not on registration, but on use -- these are not rights sought by "the owner of a registered trademark", which are the rights guaranteed by Article 16.1, but are rights sought by the owner of a common law trademark.

19. Article 16.1 defines and protects the rights of the owner of a trademark; it does not limit the ability of Members to determine who the owner is. In other words, the contribution of TRIPs Article 16.1 was enhanced enforcement of intellectual property rights, not curtailment of a sovereign nation's authority to determine who may assert those rights. Article 16.1 especially

did not curtail such rights with respect to the basic decision whether to recognize uncompensated foreign confiscations.

20. In sum, sections 211(a)(1) and 211(b) are not inconsistent with TRIPs Article 16.1, because Article 16.1 confers rights on the owner of a registered trademark, and section 211 does not limit the rights of the true owners of registered trademarks. Even if the Panel were to find an inconsistency between the rights referred to in Article 16.1 and sections 211(a)(1) and 211(b), however, these sections would still be consistent with TRIPs. This is because Article 17 allows WTO Members to make limited exceptions to the rights conferred by a trademark, provided that such limited exceptions take account of the legitimate interests of the owner of the trademark and of third parties. Sections 211(a)(2) and 211(b) would meet these requirements, because each of these provisions applies only to a very narrow and specified class of potential right holders and are therefore "limited". They are also limited in the sense that they merely impose one condition to the enforcement of asserted trademark rights: the consent of the original owner. This consent requirement is directly related to the purpose of the exception, which is to deny extraterritorial effects to a Cuban confiscation. Further, sections 211(a)(2) and 211(b) take into account the legitimate interests of the owner of the trademark and of third parties. A designated national who claims to own the trademark rights has *no* legitimate interest in the mark because his claim is based, directly or indirectly, on the confiscation of the business associated with the mark. By contrast, the interest of the dispossessed owner has considerable legitimacy. The original owner created the trademark, first used it on his products, and built its distinctive reputation. The fact that he was deprived of his property, without compensation, by governmental fiat, in no way diminishes the policy justification for protecting his interest in the mark. A consent requirement sufficiently "takes account" of this history and allows the current claimant and the original owner to work out an accommodation of their respective interests. In other words, section 211 is precisely targeted at the wrong it seeks to address.

TRIPs Article 42

21. Sections 211(a)(2) and 211(b) are also not inconsistent with Article 42 of the TRIPs Agreement, which requires Members to make civil judicial procedures available for the enforcement of intellectual property rights. Article 42 applies only with respect to intellectual property rights "covered by [the] Agreement," *i.e.*, rights that a Member is required to enforce under the Agreement. Article 42 does not require WTO Members to provide right holders with procedures to enforce rights that do not exist. If a purported intellectual property right is not "covered by this Agreement," a Member is under no obligation to enforce it through its civil judicial system. Neither Article 16, nor any other provision of the TRIPs Agreement, addresses the question of who is the legitimate owner of a trademark under a Member's domestic law. Sections 211(a)(2) and (b) merely state that a person that holds no rights in a mark cannot enforce that mark. These sections, therefore, do not violate Article 42.

22. The same reasoning applies if the Panel finds that section 211 falls within the TRIPs

Article 17 exceptions provision. By definition, where a valid exception to trademark rights applies, such rights cannot be successfully asserted.

23. Consequently, sections 211(a)(2) and (b) cannot violate Article 42. As the text of Article 42 makes clear, where TRIPs prescribes no right, it certainly does not require a remedy.

24. Further, there can be no serious question that the United States makes available civil judicial procedures concerning the enforcement of intellectual property rights. The U.S. civil judicial system is one of the most developed systems in the world and trademark holders regularly enforce their rights in U.S. domestic courts. Notwithstanding the EC's erroneous assertions to the contrary, persons potentially affected by section 211 do have access to United States courts, and have standing to present their case. Sections 211(a)(2) and (b) constitute substantive rules governing the ownership of trademark rights, not jurisdictional or standing rules regarding access to the court system. They do not affect the availability of judicial procedures to any party asserting a right to a trademark.

Paris Convention Article 6 *bis* (1)

25. Sections 211(a)(2) and 211(b) are not inconsistent with Article 6 *bis* (1) of the Paris Convention, because that article only provides that Members shall undertake to cancel and prohibit use of trademarks considered by that country to be well-known as the mark of another person entitled to the benefits of the Convention. Sections 211(a)(2) and 211(b) only come into play when U.S. courts determine that the U.S. trademark is not, in fact, "the mark of" the confiscating entity or its successors in interest. If, under U.S. law, the confiscating entity does not have any rights of ownership in the trademark, the trademark cannot, as a matter of law be "well known as being already the mark of" the confiscating entity.

Paris Convention Article 8

26. Sections 211(a)(2) and 211(b) are not inconsistent with Article 8 of the Paris Convention because Article 8 merely requires a Member to offer some protection to trade names, without the requirement of filing or registration and regardless of whether it forms part of a trademark. Article 8 does not impose any requirements on the scope of protection, other than, through Article 2, the requirement of national treatment. For this reason alone, sections 211(a)(2) and 211(b) do not violate Article 8 of the Paris Convention.

27. In any case, however, it cannot be asserted that the protections given trade names must be more stringent than those given trademarks. Because sections 211(a)(2) and 211(b) are not inconsistent with TRIPs or the Paris Convention with respect to trademarks, therefore, they are not inconsistent with TRIPs or the Paris Convention with respect to trade names.

National Treatment Provisions Of TRIPs And The Paris Convention

28. Sections 211(a)(2) and 211(b) are not inconsistent with the national treatment provisions of TRIPs and the Paris Convention. Contrary to the EC's assertions, it is simply incorrect to claim that Cuba, Cuban nationals, and specially designated nationals are denied "protection of their intellectual property rights, while US nationals are enjoying such protection", or that foreign nationals who are successors in interest are denied such protection, while U.S. nationals are not. First and foremost, as discussed above, those nationals that base their alleged trademark rights on a foreign confiscation are not the true owners under U.S. law, and so have no ownership rights to assert under TRIPs.

29. Further, however, neither section 211(a)(2) nor section 211(b) accords less favorable treatment to non-U.S. nationals than it does to U.S. nationals. Section 211(b) specifies that U.S. courts shall not recognize, enforce, or otherwise validate any assertion of rights – by virtue of a foreign registration – in trademarks, trade names or commercial names used in connection with confiscated assets "by a designated national or its successor-in-interest". Section 211(b) applies, therefore, by its own terms, to designated nationals and to any successor in interest, whether Cuban or not. It applies to any person, whether Cuban or not and whether U.S. or not, who claims a registration under U.S. law by virtue of a foreign registration of a trademark used in connection with confiscated assets.

30. Section 211(a)(2) provides that U.S. courts may not recognize, enforce, or otherwise validate any assertion of alleged rights in a confiscated trademark "by a designated national" or a national of any foreign country who is a successor in interest to a designated national. U.S. nationals who are successors in interest are not specifically mentioned in section 211(a)(2), but U.S. nationals cannot even become successors in interest to a designated national -- for instance, a Cuban entity that owns a confiscated business in Cuba -- without getting a specific licence from OFAC. This is because any transaction by which a U.S. person could become a successor-in-interest to a Cuban confiscating entity is prohibited under 31 CFR 515.201. OFAC has never issued a specific licence for such a purpose.

31. Even assuming for the sake of argument that a U.S. national were in a position to assert alleged rights in trademarks used in connection with assets confiscated abroad, that U.S. person would have to convince a U.S. court that any such rights should be enforced in spite of the principle of non-recognition of foreign confiscatory measures. U.S. judicial precedents have very specifically addressed situations involving a foreign confiscation without compensation that purports to affect trademarks or other property in the United States, and resulting disputes between the confiscating entity (or its successor) and the original owners. In those situations, which are equally addressed by section 211, the precedent is clear and directly on point that it is the original owners of the asset in the United States (whose assets abroad were confiscated) that can assert ownership rights in the associated U.S. trademark, not the confiscating entity or its successors.

32. In sum, neither section 211(a)(2) nor section 211(b) gives non-U.S. nationals less favorable treatment than U.S. nationals.

TRIPs Article 4

33. Finally, it is simply incorrect to assert that sections 211(a)(2) and 211(b) violate the TRIPs "most favored nation" provision – Article 4 – because they "create[ ] *de jure* discrimination between Cuba/Cuban nationals and other non-US nationals by denying protection of intellectual property rights held by Cuban nationals while granting such protection to nationals of other countries."

34. It is incorrect first because, under U.S. law, persons basing their trademark claims on foreign confiscations are not the true owners of the trademarks and therefore have no rights to assert under TRIPs. It is also incorrect because sections 211(a)(2) and (b) do not grant an "advantage, favour, privilege, or immunity" to non-Cuban nationals that they do not grant to Cuban nationals: neither one nor the other can enforce a trademark based on a foreign confiscation.

35. Sections 211(a)(2) and 211(b) apply in the first instance to those entities in Cuba that confiscated a business in Cuba without compensation and to any Cuban national to whom the "rights" in connection with that business are transferred or made available. These persons may not assert ownership rights in a U.S. trademark, trade name, or commercial name used in connection with that confiscated business under section 211(a)(2) and (b). In other words, there must be a clean "chain of title" in order to assert ownership rights.

36. Sections 211(a)(2) and 211(b), therefore, are aimed at all those persons whose claim to a particular trademark, trade name or commercial name is based on an uncompensated confiscation of the business associated with that trademark, trade name or commercial name. Further, as discussed above, the principle that the United States will not give extra-territorial effect to foreign confiscations is a principle that applies equally to all countries, and is not limited to confiscations in Cuba.

37. Indeed, sections 211(a)(2) and 211(b) do not limit their focus to Cuba and Cuban nationals: under those sections, U.S. courts will not enforce or recognize any asserted rights to such trademarks, trade names and commercial names by <u>any</u> successors-in-interest -- <u>whether Cuban or not</u> -- to any Cuban entities claiming rights based on confiscated assets. It does not matter if the "rights" associated with the confiscated assets are transferred by the confiscating entity to a Cuban, European, or U.S. national: U.S. courts will not recognize those assertions of rights as regards trademarks, trade names and commercial names in the United States.

38. Sections 211(a)(2) and 211(b) do not, therefore, grant an "advantage, favour, privilege or immunity" to the nationals of, for instance, France that it does not grant to the nationals of Cuba

with regard to the protection of intellectual property rights. Under sections 211(a)(2) and 211(b), a Cuban national who is a successor-in-interest to a confiscated business will have all the advantages of a French national who is a successor in interest to a confiscated business, with regard to the protection of intellectual property rights. Neither one will be able to claim rights in the United States to a trademark, trade name, or commercial name of a confiscated business.

39. Consequently, sections 211(a)(2) and 211(b) are not inconsistent with Article 4 of the TRIPs Agreement.

VI. Conclusion

40. The United States respectfully requests that the Panel reject the EC's claims in their entirety and find that section 211 is not inconsistent with Articles 3.1, 4, 15.1, 16.1 or 42 of the TRIPs Agreement, or with TRIPs Article 2.1, together with Articles 2(1), 6 *bis* (1), 6 *quinquies* A(1) and 8 of the Paris Convention.