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Is that COHIBA from Cuba? Not if it's Sold in the U.S.: Second Circuit Reverses Ruling that U.S. Company Misappropriated the Cuban COHIBA Brand

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by Phillip Barengolts

The Second Circuit may have finally ended the nearly 15 year legal battle between Empresa Cubana d/b/a Cubatabaco, the cigar making branch of the Cuban government, and U.S. cigar marketer General Cigar. Now there will be two different marketers of "COHIBA" cigars in the world. To see the practical impact of this decision, search for "cohiba cigars" in any search engine.

The Court of Appeals for the Second Circuit reversed the district court's rulings that granted Cubatabaco relief from judgment against it under Fed. R. Civ. P. 60(b). *Empresa Cubana del Tabaco v. General Cigar Co.*, Case No. 08-5878 (2d Cir. July 14, 2010) *reversing* 587 F. Supp. 2d 622 (S.D. N.Y. 2009) (appellate decision available at http://scholar.google.com/scholar_case?case=1756775939633617674). Had the Second Circuit affirmed the district court's rulings, General Cigar would have been enjoined from selling cigars under the COHIBA trademark in the U.S.

The series of decisions in this case illustrates the difficulty U.S. courts have in dealing with the dual role of trademarks – the goodwill and asset value they embody for the owner, and the informational function they perform for the consuming public. Given the differences between these functions, it is not easy to draw bright lines between misappropriation of another's foreign mark and lawfully using a mark that one knows from abroad but believes is freely available for use in the U.S. because the foreign mark is not used here. The district court and the Second Circuit had different views about where to draw the line, but, taken together, their decisions provide some guidance for foreign mark owners and U.S. entrepreneurs.

A Brief History of the COHIBA Cigar

COHIBA cigars purportedly began in the 1970s, as the personal cigars of Fidel Castro, which the dictator shared with his inner circle and foreign dignitaries.[1] Cubatabaco began selling COHIBA cigars outside of Cuba in 1982, and is now famous throughout the world. Yet, because of the U.S. trade embargo on Cuban goods, Cubatabaco has never sold COHIBA cigars in the United States.

General Cigar and Culbro Corporation originally began selling cigars in the United States under the COHIBA mark in 1981, but stopped selling them in 1987. They resumed sales in 1992 with full knowledge of Cubatabaco's use of COHIBA abroad. General Cigar produces its cigars in the Dominican Republic.

Cubatabaco's Legal Claims

When General Cigar resumed its sales, Cubatabaco objected and sued in the Southern District of New York. Cubatabaco's argument throughout the litigation was that General Cigar should not be permitted to use the COHIBA brand in the U.S. because U.S. consumers had come to associate COHIBA with Cubatabaco's Cuban cigars. It premised this argument on two basic theories: 1) Cubatabaco's COHIBA mark was well-known to U.S. consumers and, therefore, deserved protection in the U.S.; and 2) General Cigar's adoption of the COHIBA mark constituted unfair competition under the common law.[2]

With respect to its well-known mark argument, Cubatabaco argued that Article 6*bis* of the Paris Convention, as recognized by U.S. law in Section 44(b) of the Lanham Act, 15 U.S.C. § 1126(b), provided Cubatabaco with a right to relief because members of the Convention, including the U.S. and Cuba, must "prohibit the use of a trademark which constitutes a reproduction, an imitation, or a translation, liable to create confusion, of a mark considered . . . to be well known in that country . . . and used for identical or similar goods." *See* http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html#P151_21198. The district court dismissed this claim on summary judgment.[3] *Empresa Cubana del Tabaco v. Culbro Corp.*, 213 F. Supp. 2d 247 (S.D.N.Y. 2002).

Cubatabaco also relied upon a trademark infringement claim under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). To prevail on this claim, Cubatabaco had to establish priority of rights in the U.S. by showing that the COHIBA mark acquired sufficient renown in the U.S. prior to General Cigar's 1992 re-adoption of the mark.

To prevail upon its New York common law unfair competition claim, Cubatabaco had to prove that General Cigar had misappropriated Cubatabaco's labors in bad faith. According to the district court, "Under New York law, common law unfair competition claims closely resemble Lanham Act claims

[1] Unlike many products sold under identical marks in the U.S. and in Cuba, COHIBA cigars were not originally marketed by a privately owned company prior to the Cuban Revolution and embargo, nor were they sold in the United States prior to that time. Thus, this case does not involve an expropriated owner seeking to use its trademark in the U.S. while the Cuban government continues to use the mark in Cuba.

[2] Cubatabaco asserted numerous other claims not discussed here.

[3] The current consensus is that the Paris Convention provides no substantive rights and claimants may only rely upon rights conferred under the Lanham Act. *See, e.g.*, *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135 (2d Cir. 2007).

except insofar as the state law claim may require an additional element of bad faith or intent." *Empresa Cubana Del Tabaco v. Culbro Corp.*, 70 U.S.P.Q.2d 1650 (S.D.N.Y. 2004).

Findings at Trial and the Second Circuit's Rejection of the Well-Known Marks Doctrine

After trial, the district court found that the Cuban COHIBA mark was well-known in the U.S. among the relevant consumers and had achieved that notoriety prior to General Cigar's reintroduction of its COHIBA cigars. It also found that General Cigar adopted the COHIBA mark to exploit the reputation of the Cuban COHIBA mark. Nevertheless, the court ruled that General Cigar did not adopt the COHIBA mark in bad faith because General Cigar had a reasonable belief that it was the prior user of the COHIBA mark in the U.S. Based upon these findings, the district court ruled that Cubatabaco had succeeded on its Section 43(a) trademark infringement claim.[4] General Cigar prevailed on all other grounds. *Id.*

The Second Circuit reversed the district court's ruling under Section 43(a) of the Lanham Act, finding that there was no "well-known marks" exception to the territoriality principle of U.S. trademark law.[5] It upheld the district court's rulings on the Paris Convention and the New York common law unfair competition claims. Moreover, the Second Circuit found that the Cuban Assets Control Regulations barred Cubatabaco's acquisition of rights in the COHIBA mark under the Lanham Act, regardless of the basis.

The New York Court of Appeals Acknowledges the Availability of Common Law Misappropriation Claims for Mark Owners that do Not Use Marks in the U.S.

In a similar Second Circuit case, *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135 (2d Cir. 2007), the Second Circuit asked the New York Court of Appeals (New York's highest court) whether New York law recognized a "well-known marks" exception that could provide a cause of action under common law based on recognition of a foreign mark in the U.S., even absent use of that mark in the U.S. The New York Court of Appeals responded that New York did not recognize the "well- known" marks doctrine, but, under New York's common law of unfair competition, a plaintiff could assert a claim for misappropriation despite not using a trademark in the U.S.

The New York Court of Appeals explained that the use of a plaintiff's property right or commercial advantage, including goodwill, to compete against the plaintiff's own use of the same property or commercial advantage is actionable under the misappropriation theory of unfair competition. Furthermore, it stated that "goodwill can, and does, cross state and national boundary lines" and "when a business, through renown in New York, possesses goodwill constituting property or a commercial advantage in this state, that goodwill is protected from misappropriation under New York unfair competition law." *ITC Limited v. Punchgini, Inc.*, 880 N.E.2d 852 (N.Y. 2007).[6]

[4] The Court explicitly denied relief under all other claims asserted by Cubatabaco.

[5] *But see Grupo Gigante S.A. de C.V. v. Dallo & Co.*, 391 F.3d 1088 (9th Cir. 2004) (finding a famous marks exception sufficient to allow a foreign mark owner to proceed with a claim where a substantial percentage of relevant consumers recognize the foreign mark).

[6] The New York Court of Appeals held that, to prevail on such a misappropriation claim, a party must prove two elements: 1) the defendant "deliberately copied" the mark used by plaintiff because of "plaintiff's well-known reputation and good will," and 2) "consumers of the good or service provided under a certain mark by a defendant in New York must primarily associate the mark with the foreign plaintiff."

In *ITC Ltd. v. Punchgini, Inc.*, 518 F.3d 159, 160 (2d Cir. 2008), the Second Circuit eventually denied the plaintiff's claims for its failure to prove that it had goodwill in the relevant consumer market in New York.

Cubatabaco Moves for Relief from the Judgment

Based upon the rulings in *ITC*, Cubatabaco moved for relief from the judgment entered by the district court on May 27, 2006. The district court agreed that there had been a change in law since the 2006 entry of judgment. Specifically, it found that the New York Court of Appeals had lowered the bar for proving a misappropriation claim by omitting the requirement of bad faith and permitting foreign entities to institute actions on the same grounds as domestic entities. Furthermore, the district court interpreted *ITC* as standing for the proposition that evidence of deliberate copying was sufficient to establish a New York common law misappropriation claim, but that such deliberate copying did not rise to the level necessary to establish bad faith. The district court then granted Cubatabaco relief from the judgment and an injunction against General Cigar's use of COHIBA in the U.S. based upon the court's previous findings after trial.

In its recent 2010 decision, the Second Circuit overturned the district court's grant of the Rule 60(b) motion. The appellate court did not agree that there had been a change in law such that Cubatabaco should be entitled to relief from the judgment. The Second Circuit stated that the New York Court of Appeals explicitly reaffirmed existing state law and did not change or clarify the law in its *ITC* opinion. Given that the district court found at trial that General Cigar did not adopt the COHIBA mark in bad faith, it was a simple matter for the Second Circuit to overturn the finding of misappropriation because bad faith continued to be an element of that cause of action.

Claims for Common Law Misappropriation by a Foreign Mark Owner in the Second Circuit

The Second Circuit's decisions in this long running litigation provide foreign mark holders with a framework for asserting common law misappropriation claims under New York law. The standards are high, but not insurmountable, provided a plaintiff can adduce the right evidence in discovery. It appears that to prove such a claim, a plaintiff must show that: 1) it owns goodwill among the relevant consumers – in other words, the potential customers for the goods or services provided under the contested trademark must primarily associate the mark with the foreign plaintiff; 2) the defendant deliberately copied the plaintiff's mark because of the goodwill the plaintiff developed in the mark; and 3) the defendant copied the plaintiff's mark in bad faith. Under *Empresa Cubana*, bad faith adoption appears to mean more than deliberate copying, although this author believes that the particular circumstances in *Empresa Cubana* may limit this part of the ruling to the facts of this specific case.

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