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Empresa Cubana del Tabaco v. Culbro Corp.

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*Empresa Cubana del Tabaco
v. Culbro Corp.*

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*Jerry, once you've had real Cubans, there's just nothing else like it.*¹

This sentiment expressed by the character Kramer in the hit television series *Seinfeld* illustrates how the mystique of Cuban cigars has permeated American culture, despite their unavailability in the United States since 1963.² Looking to capitalize on their allure, Kramer hatches a money-making scheme to use expatriated Cuban cigar rollers to create a Cuban-quality cigar that can be sold legally in the United States. Plans go awry when Kramer realizes the cigar rollers are Dominican and not Cuban. Afraid that his investor will pull out of the deal, he dresses the cigar rollers in Castro-style fatigues and tries to pass them off to his investor as Cubans. Savvier than the average consumer, the investor takes one look at the cigar rollers and accuses Kramer of trying to sell him “Dominicans in a Cuban wrapper.”³

This episode is reminiscent of the problem the United States Court of Appeals for the Second Circuit faced in *Empresa Cubana del Tabaco v. Culbro Corp.*⁴ (“*Empresa IV*”), in which a Cuban cigar company sued an American cigar company for intentionally appropriating its trademark in order to capitalize on the success of the Cuban brand’s reputation. The court was charged with deciding whether the American company’s actions were simply good business strategy or whether they constituted unfair competition. In other words, was the American company trying to sell consumers “Dominicans in a Cuban wrapper”?

In *Empresa IV*, the court was presented with the issue of whether a Cuban company, which had neither registered its trademark in the United States nor sold its cigars here, was nonetheless entitled to obtain injunctive relief against an American company that had copied and registered the same mark in the United States. The situation was complicated by the Cuban Assets Control Regulations (the “CACR”), which prohibit Cuban nationals or entities from conducting many transactions involving currency, securities, real property and intellectual property.⁵ This case comment contends that the Second Circuit in *Empresa IV* erred in holding that the CACR barred the plaintiff from obtaining injunctive relief on its unfair competition claim. A grant of injunctive relief would have promoted the policy objectives of trademark law without violating the intent of the CACR.

Plaintiff *Empresa Cubana del Tabaco* (“*Cubatabaco*”) is a Cuban cigar manufacturer and distributor, with its primary place of business in Havana,

1. *Seinfeld: The English Patient* (NBC television broadcast Mar. 13, 1997).

2. In 1963, President Kennedy imposed a comprehensive embargo on Cuba. The embargo is embodied in the Cuban Assets Control Regulations, which are codified at 31 C.F.R. § 515 (2005). The regulations prohibit most travel, trade, and financial transactions involving Cuban goods, money, property, and citizens, absent a general license within the regulations or a specific license granted by the Office of Foreign Assets Control. For a detailed discussion of the history and effectiveness of the embargo, see Michael P. Malloy, *Are the U.S. Treasury's Assets Control Regulations a Fair and Effective Tool of U.S. Foreign Policy? The Case of Cuba*, 79 AM. SOC'Y INT'L L. PROC. 169 (1985).

3. *Seinfeld: The English Patient*, *supra* note 1.

4. *Empresa Cubana del Tabaco v. Culbro Corp. (Empresa IV)*, 399 F.3d 462 (2d Cir. 2005).

5. 31 C.F.R. § 515 (2005).

Cuba.⁶ In 1969, Cubatabaco registered the COHIBA mark in Cuba and sold cigars under that mark domestically throughout the 1970s.⁷ By 1978, Cubatabaco had registered the COHIBA mark in seventeen countries, including most of Western Europe.⁸ In July 1981, Cubatabaco announced in *Cubatabaco International*, an international cigar trade magazine, that it was ready to begin commercial exports of COHIBA.⁹

Defendant Culbro Corp. (“General Cigar”) is an American cigar manufacturer and distributor, with its principal place of business in Bloomfield, Connecticut. The defendant first learned of the COHIBA brand in November of 1977, when one of its executives read a magazine article in *Forbes*.¹⁰ The article mentioned that Cubatabaco intended to expand the sale of COHIBA cigars to the worldwide market.¹¹ In March of 1978, General Cigar submitted an application to the U.S. Patent and Trademark Office to register the COHIBA mark, and the registration was obtained in 1981 (the “1981 Registration”).¹² General Cigar placed the COHIBA mark on its existing White Owl brand and shipped less than 1000 cigars between 1978 and 1982.¹³ In late 1982, General Cigar placed the COHIBA mark on its existing Canaria D’Oro premium cigar and shipping increased to approximately 600,000 between 1982 and 1985.¹⁴ From 1987 to 1992, General Cigar made no sales under the COHIBA name.¹⁵

In 1983, Cubatabaco attempted to register the COHIBA mark in the United States but was informed that General Cigar had previously obtained a United States trademark registration for the name COHIBA.¹⁶ Cubatabaco, which was barred by the Cuban embargo from selling its cigars in the United States, took no further action at that time.¹⁷

On September 1, 1992 the first issue of *Cigar Aficionado* was launched, featuring a six-page story on the Cuban COHIBA, advertisements for the Cuban

6. *Empresa Cubana del Tabaco v. Culbro Corp. (Empresa III)*, 2004 U.S. Dist. LEXIS 4935, at *4, *6 (S.D.N.Y. Mar. 26, 2004), *aff’d in part, rev’d in part*, 399 F.3d 462 (2d. Cir. 2005).

7. *Id.* at *10, *11.

8. *Id.* at *12.

9. *Id.* at *13.

10. *Id.* at *14.

11. *Id.*

12. *Id.* at *15.

13. *Id.* at *18. Shipments made during this period were part of General Cigar’s “trademark maintenance” program.

14. *Id.*

15. *Id.*

16. *Id.*

17. 31 C.F.R. § 515.204 bars any person subject to the jurisdiction of the United States from purchasing, transporting, importing or otherwise dealing in, or engaging in, any transaction in merchandise which: (1) is of Cuban origin; or (2) is or has been located in or transported from or through Cuba; or (3) is made or derived from “any article which is the growth, produce or manufacture” of Cuba.

COHIBA, and highly positive mentions of the brand elsewhere in the magazine.¹⁸ Several other articles lauding the Cuban brand appeared in the first half of 1992.¹⁹ On the heels of this publicity, Cubatabaco made significant efforts to promote its product to the U.S. cigar-smoking public despite its inability to sell directly to the market by, for example, inviting U.S. journalists and celebrities to COHIBA-sponsored events in Cuba, and providing information, photos and other materials to U.S. authors, journalists and filmmakers interested in researching the history of cigars.²⁰ At the same time, General Cigar decided to use the COHIBA name on a pre-existing super-premium product in order to “capitalize on the success of the Cuban brand.”²¹ On the advice of trademark counsel, General Cigar applied for a second COHIBA registration on December 30, 1992. The trademark registration was approved in 1995 (the “1995 Registration”).²²

In November of 1997, Cubatabaco filed an action against General Cigar in the United States District Court for the Southern District of New York, seeking monetary and injunctive relief.²³ It alleged violations of various international treaties and sought relief under sections 38 and 43(a) of the Lanham Act.²⁴ It also alleged violations of state and federal trademark law, trade dress infringement, deceptive advertising and trademark dilution.²⁵ Cubatabaco also asserted that General Cigar had abandoned the mark during its period of nonuse from 1987 through 1992.²⁶

The district court found that General Cigar had abandoned the COHIBA mark from 1987 to 1992, and granted partial summary judgment to Cubatabaco on that ground.²⁷ However, it dismissed several of Cubatabaco’s treaty claims and denied summary judgment on the issues of unfair competition and trademark dilution under federal and state law.²⁸ A bench trial was held on the remaining issues, and on March 26, 2004, the district court entered judgment for Cubatabaco on its trademark infringement claim under section 43(a) of the Lan-

18. *Empresa III*, 2004 U.S. Dist. LEXIS 4935, at *25. It is significant to note that the premier issue of *Cigar Aficionado* had a U.S. circulation of 115,000 copies, which amounted to approximately 25% of all premium cigar smokers in the United States at the time.

19. *Id.*

20. *Id.* at *25–26 (discussing other publicity in American magazines following the premier issue of *Cigar Aficionado*).

21. *Id.* at *29–30.

22. *Id.* at *48–49.

23. *Empresa III*, 2004 U.S. Dist. LEXIS 4935.

24. *Empresa IV*, 399 F.3d at 467. Sections 44(b) and 44(h) of the Lanham Act are codified at 15 U.S.C. § 1126(b), (h) (2000 & Supp II 2002).

25. *Empresa III*, 2004 U.S. Dist. LEXIS 4935.

26. *Id.* at *9.

27. *Empresa Cubana del Tabaco v. Culbro Corp. (Empresa I)*, 213 F. Supp. 2d 247 (S.D.N.Y. 2002).

28. *Id.* at 286–87. The court also dismissed General Cigar’s equitable defenses. Both parties moved for reconsideration and were denied.

ham Act, finding that Cubatabaco's COHIBA mark was sufficiently well known to the American cigar-buying public to be protected under the "famous marks" doctrine.²⁹ The court issued a permanent injunction restraining General Cigar from further use of the COHIBA mark and ordered that it deliver to Cubatabaco for destruction all of its packaging, labeling, advertising and reproduction materials associated with the COHIBA mark.³⁰

On appeal, General Cigar asserted, among other things, that Cubatabaco was prohibited by the CACR from acquiring U.S. property rights in the COHIBA mark.³¹ Cubatabaco argued that the district court's decision should be affirmed, and that even if the CACR prevented it from acquiring property rights in the mark, it was nonetheless entitled to injunctive relief because ownership of a mark is not required to succeed on a claim of unfair competition under section 43(a) of the Lanham Act.³²

After oral arguments, the circuit court invited the Department of Justice and the Treasury Department (collectively the "Government") to submit a joint amicus curiae brief to address the question of whether the CACR barred Cubatabaco's acquisition of the COHIBA mark through the famous marks doctrine.³³ The Government contended that the acquisition of the COHIBA mark under the famous marks doctrine would constitute a property transfer to a Cuban entity in violation of the CACR.³⁴ However, the Government conceded that nothing in the regulations would prohibit Cubatabaco from obtaining an injunction canceling General Cigar's 1995 Registration, and barring any subsequent

29. The "famous marks" doctrine has evolved as an exception to the territoriality principle of trademark law. Under the territoriality principle, the scope of trademark rights extends only as far as the market in which the mark is used. Under the famous marks doctrine, a mark that is used only on goods or services abroad will be legally recognized in the United States if it has achieved such a level of recognition in the United States that there would be a likelihood of consumer confusion should another user adopt the same or similar mark. See 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION 29:61 (4th ed. 2005).

30. *Empresa III*, 2004 U.S. Dist. LEXIS 4935, at *168. The remaining claims of both parties were dismissed.

31. *Empresa IV*, 399 F.3d at 471. Even though General Cigar did not raise this argument below, the court used its discretionary power and allowed it on appeal because (1) it considered the United States policy towards Cuba of significant public concern, and (2) it was a question of pure law and did not require any fact finding. *Id.*

32. *Id.* Cubatabaco did not litigate this section 43(a) claim below. However, it asserted the issue was properly before the court because it involved the application of the Lanham Act. Cubatabaco further contended that its failure to raise the issue below was due to defendant's failure to raise its argument regarding the CACR until appeal. The court agreed to hear the claim. *Id.* at 477.

33. *Id.* at 471.

34. *Id.* Note that 31 C.F.R. § 515.201(b) states: "All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury (or any person, agency, or instrumentality designated by him) by means of regulations, rulings, instructions, licenses, or otherwise, if such transactions involve property"

use of the COHIBA mark based on a finding of unfair competition under section 43(a) of the Lanham Act.³⁵

The Second Circuit reversed the district court's decision, holding that section 515.201(b) of the CACR barred Cubatabaco from acquiring property rights in the COHIBA mark under the famous marks doctrine.³⁶ It also held that the regulations prohibited Cubatabaco from obtaining injunctive relief against General Cigar's use of the COHIBA mark, stating that canceling General Cigar's mark would constitute a transfer of property, as defined in section 515.310 of the CACR,³⁷ and that this was "exactly the type of property right transfer that the embargo prohibits."³⁸

It has generally been understood that the basic policy of trademark law is to protect the consumer from deception,³⁹ with the secondary goal to protect trademark owners from those who would profit from the goodwill developed at the original owners' considerable effort and expense.⁴⁰ Congress enacted the Lanham Act⁴¹ to further these goals,⁴² and the United States has entered into a number of treaties to assure these goals are achieved internationally.⁴³ The Second Circuit, in *Empresa IV*, failed to properly consider these objectives when rendering its decision.

The general intent of the Cuban embargo was to block the flow of American funds into Cuba in order to prevent U.S. dollars from being used to fund the communist regime (or any terrorist activities it supported) and to encourage the Cuban government to take steps toward democracy.⁴⁴ Stripping General Cigar

35. However, the Government argued that the injunction could not include the transfer of packaging, marketing, or manufacturing materials from General Cigar to Cubatabaco, as that would be a prohibited transfer under the CACR. *Empresa IV*, 399 F.3d at 470.

36. *Id.* at 471.

37. 31 C.F.R. § 515.310 defines the term transfer as "any actual or purported act or transaction, whether or not evidenced by writing, and whether or not done or performed within the United States, the purpose, intent, or effect of which is to create, surrender, release, transfer, or alter, directly or indirectly, any right, remedy, power, privilege, or interest with respect to any property"

38. *Empresa IV*, 399 F.3d at 476.

39. See *S.C. Johnson & Son, Inc. v. Johnson*, 116 F.2d 427, 429 (2d Cir. 1940) ("We are nearly sure to go astray in any phase of the whole subject, as soon as we lose sight of the underlying principle that the wrong involved is diverting trade from the first to deal with him [the first in the market]."); see also MCCARTHY, *supra* note 29, at 2:1 ("The interest of the public in not being deceived has been called basic policy.").

40. MCCARTHY, *supra* note 29, at 2:2.

41. 15 U.S.C. §§ 1111–1129 (2000) (General provisions).

42. See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 782 n.15 (1992) (Stevens, J., concurring).

43. See Paris Convention for the Protection of Industrial Property, July 14, 1967, 828 U.S.T.S. 303; Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1896, as revised at Paris on July 24, 1971, 1161 U.N.T.S. 30; Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments — Results of the Uruguay Round vol. 31, 33 I.L.M. 81, 85 (1994).

44. See generally Donald R. Dinan, *An Analysis of the United States–Cuba "Havana Club" Rum Case Before the World Trade Organization*, 26 *FORDHAM INT'L L.J.* 337, 348 (2003); David Mowry,

of its rights to use the COHIBA mark in the United States is not inconsistent with this intent. Even if, subsequent to the injunction, Cubatabaco registered the COHIBA mark in the United States, as prescribed by the CACR, it would still be prohibited by the CACR from selling its cigars in the United States.⁴⁵ Furthermore, as a result of a recent amendment to the CACR, U.S. citizens traveling abroad can no longer legally purchase Cuban cigars in another country for personal use abroad or at home.⁴⁶ Because granting Cubatabaco injunctive relief would not result in any increase in American dollars flowing to the Cuban entity, it is unclear how this type of transaction was “exactly” the type of transfer the embargo intended to prohibit.

As the Government conceded, nothing in the CACR prevented the court from granting injunctive relief to Cubatabaco. Such a result would have protected consumers from confusion as to the source of COHIBA cigars, as well as prevented General Cigar from further profiting unfairly from the goodwill and superior reputation of the Cuban COHIBA. In addition, by granting Cubatabaco the injunctive relief it sought, the court would have sent a message to the international community that the United States was willing to uphold its commitment to strengthening international intellectual property rights.

Other circuits have shown a willingness to protect the mark of a foreign user who has neither registered nor used its mark in the United States, even at the expense of a local user. Recently, in *International Bancorp, LLC v. Societe Des Bains De Mer Et Du Cercle Des Etrangers a Monaco*,⁴⁷ the Fourth Circuit held that to have a protectable interest in an unregistered trademark, an owner need only show the mark is distinctive and that it has been “used” in commerce.⁴⁸ In that case, the Fourth Circuit employed a broad and controversial definition of “use” in commerce that applied to any commercial intercourse between the citizens of the United States and the citizens of a foreign nation.⁴⁹ In response to the dissent’s contention that the ruling would subvert the foundation of U.S. trademark law, the majority stated to the contrary that “since avoidance of consumer confusion is the ultimate end of all trademark law . . . we may see

Note, *Lifting the Embargo Against Cuba Using Vietnam as a Model: A Policy Paper for Modernity*, 25 BROOK. J. INT’L L. 229, 237 (1999).

45. 31 C.F.R. § 515.527 (2005).

46. See U.S. Dep’t of the Treasury, Office of Foreign Assets Control, Cuban Cigar Update, <http://www.treas.gov/offices/enforcement/ofac/programs/cuba/ccigar2.pdf> (last visited Feb. 9, 2007).

47. 329 F.3d 359 (4th Cir. 2003).

48. *Id.* at 363.

49. *Id.* at 366. It is interesting to note that, as support for this proposition, the court cited the CACR’s regulation of commercial transactions of U.S. citizens traveling abroad who purchase Cuban goods. “Such embargo authority, encompassing embargoes of commercial intercourse abroad by United States citizens with subjects of foreign nations, has long been recognized to be a valid exercise of Congress’ foreign commerce clause power . . .” *Id.* at 367 (emphasis added).

our laws working, as intended, to reduce consumer confusion.”⁵⁰ While the court in *International Bancorp* expressly limited its holding to service marks,⁵¹ its reasoning nonetheless can be extended to marks for goods as well.⁵²

The Ninth Circuit also recently found in favor of a foreign user seeking to enforce its trademark protection based on its exclusive use of that mark outside the United States. In *Grupo Gigante S.A. de C.V. v. Dallo & Co.*,⁵³ Grupo Gigante, a grocery store chain that had operated in Mexico since 1962, brought a claim against Dallo & Company, which had operated the Gigante Market chain in San Diego since 1991. As in *Empresa*, the foreign user was the first in time to use the mark, but did not register or use the mark in the United States.⁵⁴ The Ninth Circuit held that the Grupo Gigante mark was famous prior to Dallo & Company’s use of the mark and therefore was entitled to protection, despite the fact that at the time Dallo & Company began using the Gigante name, Grupo Gigante had operated exclusively in Mexico.⁵⁵ The court reasoned that “when foreign use of a mark achieves a certain level of fame for that mark within the United States, the territoriality principle no longer serves to deny priority to the earlier foreign user.”⁵⁶ It further held that any attempt to strictly enforce a territoriality principal that ignores prior foreign use without an exception for famous marks would promote consumer confusion and marketplace deception.⁵⁷

There was sufficient evidence presented at trial in *Empresa IV* to demonstrate the existence of consumer confusion with regard to the COHIBA mark. In 1998, General Cigar conducted market research to determine whether there was consumer confusion between the COHIBA marks, and the results revealed that there was “serious consumer confusion.”⁵⁸ One consumer even indicated a belief that “[t]here are two brothers, one who makes COHIBA in Cuba and the other in the Dominican Republic.”⁵⁹ The survey also revealed that those who knew

50. *Id.* at 381.

51. “We would not apply our interpretation of the statutory provisions addressing services to a case involving goods.” *Int’l Bancorp*, 329 F.3d at 375 n.8.

52. See generally James A. Carney, *Setting Sights on Trademark Piracy: The Need for Greater Protection Against Imitation of Foreign Trademarks*, 81 TRADEMARK REP. 30 (1991) (outlining several reasons, including consumer confusion, why an imitator’s knowledge of the existence of a trademark should alone negate any of the imitator’s pre-emptive rights); Thomas J. Hoffmann & Susan E. Brownstone, *Protection of Trademark Rights Acquired by International Reputation Without Use of Registration*, 71 TRADEMARK REP. 1 (1981) (proposing that protection based on fame of a mark protects customers from confusion and encourages international trade by protecting trademark owners).

53. 391 F.3d 1088 (9th Cir. 2004).

54. *Id.* at 1091.

55. *Id.* The chain did enter the U.S. market prior to commencing the lawsuit against Dallo.

56. *Id.* at 1093.

57. *Id.* at 1094.

58. *Empresa III*, 2004 U.S. Dist. LEXIS 4935, at *73.

59. *Id.* at *74.

that there was both a Cuban and a Dominican brand believed the Dominican brand to be either fake or of lesser quality than the Cuban brand.⁶⁰ Furthermore, evidence suggested that the average consumer who purchases a cigar based on the “Cuban mystique” was either not aware of the embargo or may not have realized that the General Cigar COHIBA was not associated with the Cuban entity.⁶¹

Based on the above, the consumer who buys a COHIBA cigar believing it is actually of Cuban origin, or knowing it to be of Dominican origin but believing it is somehow associated or controlled by the Cuban company, is the victim of at least marketplace confusion, if not outright deception.⁶² Since prevention of consumer confusion is at the heart of trademark law,⁶³ the Second Circuit should have granted Cubatabaco injunctive relief. As the *Grupo Gigante* court pointed out:

Commerce crosses borders. In this nation of immigrants, so do people. Trademark is, at its core, about protecting against consumer confusion and “palming off.” There can be no justification for using trademark law to fool immigrants into thinking that they are buying from the store they liked back home.⁶⁴

In the case of *Empresa IV*, there can be no justification for using trademark law to fool U.S. citizens into thinking they are buying the COHIBA cigar they read about in magazines or have sampled abroad.

Stripping General Cigar of its rights to the COHIBA mark would also have been consistent with the secondary objective of trademark law: protecting the trademark owner from the imitator who attempts to “reap where it has not sown.”⁶⁵ General Cigar admitted that its decision to re-launch the COHIBA brand in 1992 was an attempt, at least in part, to capitalize on the success of the Cuban COHIBA.⁶⁶ Marketing strategies for General Cigar’s launch of the super-premium COHIBA in 1997 further demonstrate its intent to capitalize on the reputation and popularity of the Cuban brand by presenting the product to the public in such a way as to foster confusion.⁶⁷ Cubatabaco spent considerable

60. *Id.*

61. *Id.* at *140–41.

62. Under a section 43(a) claim for unfair competition it is not necessary to show that the consumer was intentionally misled. Unfair competition can still be found if the competing product merely conveys the false impression that it is the same as another. 1-8 TRADEMARK AND UNFAIR COMPETITION DESKBOOK § 8.02 (2003).

63. *Grupo Gigante S.A. de C.V. v. Dallo & Co.*, 391 F.3d 1088, 1094 (9th Cir. 2004).

64. *Id.*

65. *Int’l News Serv. v. Assoc. Press*, 248 U.S. 215, 239 (1918).

66. *Empresa III*, 2004 U.S. Dist. LEXIS 4935, at *28.

67. *Id.* To this extent, Cubatabaco also attempted to assert a claim for false advertising. However, since the claim did not appear in its original complaint, it was dismissed. *Id.* at *167–68.

time, effort and money building the reputation and goodwill associated with the COHIBA brand. The Second Circuit should have enjoined General Cigar from continuing to usurp the fruits of Cubatabaco's labor.⁶⁸

It is somewhat telling that the Government did not argue in its amicus curiae brief that the CACR would have prevented Cubatabaco from obtaining injunctive relief against General Cigar. The United States has recently come under heavy criticism from the international community for leaning on other countries to increase the protection of U.S. marks abroad, while failing to amend U.S. laws to comply with international intellectual property treaties to which it is a party.⁶⁹ Had the court in *Empresa IV* taken its cue from the Government and allowed Cubatabaco to obtain injunctive relief, it could have protected consumers without violating the intent of the Cuban embargo. It would have also assuaged the international community, which is growing frustrated with the United States, as it pressures countries like China to be more vigilant in protecting foreign trademarks while failing to live up to its own obligations under international law. Instead, the circuit court allowed General Cigar to continue its profitable scheme of selling consumers "Dominicans in a Cuban wrapper." Kramer must be jealous.

68. MCCARTHY, *supra* note 29, at 2:1.

69. See generally Keith Stolte, *OFAC: Hands Off Intellectual Property Rights*, 4 J. INTELL. PROP. L. 25 (1996); Misha Gregory McCaw, Note, *The New Rum War: Havana Club as a Threat to U.S. Interest in International Trademark Harmonization*, 18 B.U. INT'L L.J. 291 (2000).