Cuban Cigar Maker Seizes State Law Victory from the Jaws of Trademark Defeat

By Paul Kitchin

Trademark law is largely a body of federal law inspired by the common law of unfair competition. Yet, subtle differences distinguish federal trademark law from each state’s common law of unfair competition. If the former fails you at trial, the latter may offer another path to victory. For example, take Fidel Castro’s cigars.

The first issue of Cigar Aficionado magazine in 1992 hailed Cuba’s Cohiba cigars, which were originally produced exclusively for Fidel Castro, as some of the best cigars in the world. The magazine sparked a long legal battle between Cubatabaco, a state industry of the Cuban government in charge of cigars, and General Cigar Company, a US cigar producer.

Cubatabaco claimed ownership of COHIBA as a trademark for the Cuban cigars, while General Cigar launched on a national scale a COHIBA brand of super-premium cigars made in the Dominican Republic. Cubatabaco sought to register the COHIBA trademark in the US and, in 1997, claimed trademark infringement by General Cigar in a federal court case in New York.

Trademark rights and trademark registration normally depend on use of the trademark. Because the US trade embargo on Cuba prevented Cubatabaco from selling COHIBA cigars in the US, Cubatabaco instead relied on a doctrine for the protection of “well known” marks. Based on this doctrine, Cubatabaco succeeded at trial in 2004 on its claims of both trademark infringement and federal unfair competition.

As a backup to its trademark claim, Cubatabaco had also brought a New York state common law claim of unfair competition by misappropriation, a claim broad enough to prohibit taking commercial advantage of the goodwill in a foreign trade name. The trial court dismissed the claim, however, finding that under New York common law this unfair competition claim required a showing of bad faith. The court allowed that General Cigar’s use of the COHIBA name was an intentional copying meant to capitalize on the COHIBA brand and its high Cigar Aficionado scores, but decided that these acts were not bad enough to be “bad faith.”

Unfortunately for Cubatabaco, its trademark infringement victory was wiped out in 2005 on appeal. The Second Circuit ruled that the Cuban Assets Control Regulations barred Cubatabaco’s acquisition of property in the US, including trademarks, unless acquired by registration. The Second Circuit also rejected Cubatabaco’s federal law unfair competition claim, because allowing the claim would be effectively the same as Cubatabaco acquiring the COHIBA trademark. In 2006, the US Supreme Court denied Cubatabaco’s petition to review the case.

With its trademark rights defeated and appeal options exhausted, Cubatabaco needed a new path to victory. Cubatabaco caught a break when, in 2007, a new case by New York’s highest state court clarified that the New York common law claim of unfair competition by misappropriation required only deliberate copying of a trademark by the defendant, and did not require bad faith by the defendant. Cubatabaco went back to the trial court seeking relief from the trial court’s 2004 dismissal of Cubatabaco’s common law claim of unfair competition by misappropriation.

Because the trial court’s judgment was clearly inconsistent with the newly clarified state unfair competition law, and because the New York state court’s clarification was intended to protect against behavior like General Cigar Company’s copying of the COHIBA brand, the trial court’s new opinion granted a judgment in favor of Cubatabaco on its unfair competition by misappropriation claim.

To avoid the Cuban Asset Control Regulations that defeated the federal trademark and federal unfair competition claims, the trial court drew a fine distinction between unfair competition by misappropriation and trademark rights. The court reasoned that unlike federal
trademark law, the unfair-competition-by-misappropriation claim does not give the right to exclude others from using a mark in general, only the right to stop deliberate copying.

The parties are still fighting about relief, which the court is still considering, and General Cigar has filed a notice of appeal.