October 1996

OFAC: Hands Off Intellectual Property Rights

Keith Stolte
Office of Foreign Assets Control

Follow this and additional works at: https://digitalcommons.law.uga.edu/jipl

Part of the Intellectual Property Law Commons

Recommended Citation
Available at: https://digitalcommons.law.uga.edu/jipl/vol4/iss1/3

This Article is brought to you for free and open access by Digital Commons @ Georgia Law. It has been accepted for inclusion in Journal of Intellectual Property Law by an authorized editor of Digital Commons @ Georgia Law. Please share how you have benefited from this access; For more information, please contact tstriepe@uga.edu.
OFAC1: HANDS OFF INTELLECTUAL PROPERTY RIGHTS

Keith Stolte*

INTRODUCTION

For over a decade, the United States government has demonstrated an enormous interest in strengthening international intellectual property rights. Since 1986, the federal government has initiated numerous programs, backed by wide-ranging legislation and administrative rules, to combat trademark, patent and copyright infringement within this country and abroad. This

1 Office of Foreign Assets Control.

* Intellectual Property Administrator, Wm. Wrigley Jr. Co. The author would like to thank Professor Doris Long of John Marshall Law School, Chicago and Laurel Adamsen, formerly of the International Trademark Association, for their assistance in the preparation of this Article.


noteworthy commitment is bolstered by an extraordinary degree of cooperation between numerous federal departments, Congress and industry leaders. Among the most prominent agencies engaged in the war against international intellectual property abuse are the U.S. Customs Service, the Office of the U.S. Trade Representative, the Department of State and the International Trade Commission.  

Given the strong support of the U.S. government in general, and various executive departments and agencies in particular, to strengthening world wide intellectual property protections, it is ironic that one federal agency, the Office of Foreign Asset Control (OFAC), appears to be swimming against the tide.  OFAC is the agency responsible for regulating and administering U.S. embargo actions against countries that pose foreign policy or national security problems for the United States. In recent years, OFAC has demonstrated an irresponsible disregard for the concerns and rights of intellectual property owners.  

For instance, OFAC regulations in two recent embargo actions—one directed against the Federal Republic of Yugoslavia and another against Cuba—made it difficult, if not practically impossible, for U.S. trademark, patent and copyright owners to effectively


5 See infra notes 51-67 and accompanying text for a discussion of OFAC's recent unusual tendency to limit the rights of U.S. intellectual property assets in certain embargo-targeted countries.

6 See infra Part II for a discussion of the impact of OFAC regulations on American intellectual property rights in embargoed countries.
protect their assets in those countries. It is time that OFAC falls into step with the rest of the federal government in combatting foreign counterfeeters and infringers.

This Article will stress the importance of ensuring that OFAC administers U.S. embargo actions in a manner commensurate with U.S. policies relating to the strengthening of international intellectual property rights abroad. Part I will examine the history and organization of OFAC and the policy bases of foreign embargoes. Part II will discuss how OFAC regulations have traditionally avoided restrictions on intellectual property transactions and how more recent OFAC embargoes have eliminated this general exemption. Finally, Part III of this article will focus on the strong governmental interest in refraining from any kind of OFAC-imposed restrictions against the protection of patents, trademarks and copyrights, especially in embargoed countries.

I. THE OFFICE OF FOREIGN ASSET CONTROL

OFAC, an agency of the Department of the Treasury, is generally responsible for administering embargoes and economic sanctions against foreign countries that adversely affect the economic or national security concerns of the United States. The United States has, over the past two decades, imposed embargo actions or maintained previously imposed embargoes against numerous countries including Angola, Cambodia, Cuba, Iran, Iraq, Kuwait, Libya, Nicaragua, North Korea, Panama, Rhodesia, South Africa, Vietnam and Yugoslavia. Generally, OFAC-administered embargoes are imposed against rogue countries that support or tolerate international terrorism, engage in unfair or damaging economic abuses, violate internationally recognized human rights standards or pose a military or national security risk to the United States or

7 See infra notes 49-75 and accompanying text for a discussion of how OFAC regulations with respect to the U.S. embargo actions against Yugoslavia and Cuba had damaging consequences for U.S. owners of intellectual property rights.
9 Id. at 173, 182-90.
its allies. This Part will examine the history and policies behind OFAC and U.S. embargo actions. In particular, this Part will focus on congressionally delegated authority for such actions and on OFAC's administrative procedures in carrying out foreign embargoes and economic sanctions.

A. BRIEF HISTORY OF U.S. EMBARGO POLICY

The major purpose of embargoes and other economic sanctions is to prevent targeted countries, or citizens and companies of such countries, from benefiting from foreign exchange payments by U.S. nationals. Specifically, the federal government imposes embargo measures or other sanctions to prevent transactions involving the transfer of U.S. capital, goods, technology and services to targeted countries. Sometimes the purpose of an embargo or sanction is to protect the assets of a country, such as when another country has invaded the target country or when an illegitimate regime has taken control of the target country's government. For example, the United States conducted this protective type of asset freezing against Panama in 1988 and against Kuwait in 1990. Other times, the government may impose an embargo for purely punitive purposes. Examples of embargoes imposed to punish countries, or to encourage internal reform include those conducted against North Korea since 1950, and against Cuba since 1963.

The President's broad authority to impose economic embargoes against recalcitrant foreign countries principally derives from (1) the Trading with the Enemy Act (TWEA) and (2) the International Emergency Economic Powers Act (IEEPA). Both of these laws empower the President to adopt rules and regulations which serve to prohibit or limit commercial or economic transactions by U.S. nationals in specified countries. In addition, under the

10 Id. at 173, 191-95.
13 See, e.g., TWEA, 50 U.S.C. app. § 5(b). The relevant section of the TWEA provides the President with the following authority:

(1) During time of war, the President may, through any agency that he may designate, and under such rules and regulations as he may prescribe, by means of instructions, licenses, or otherwise—
United Nations Participation Act (UNPA),\textsuperscript{14} Congress has authorized the President to implement embargo measures adopted by the U.N. Security Council pursuant to Article 41 of the U.N. Charter.\textsuperscript{15} Additional statutory authority for foreign embargo actions

(A) investigate, regulate, or prohibit any transactions in foreign exchange, transfers of credit or payments between, by, through, or to any banking institution, and the importing, exporting, hoarding, melting, or earmarking of gold or silver coin or bullion, currency or securities, and

(B) investigate, regulate, direct and compel, nullify, void, prevent or prohibit, any acquisition holding, withholding, use, transfer, withdrawal, transportation, importation or exportation of, or dealing in, or exercising any right, power, or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest, by any person, or with respect to any property, subject to the jurisdiction of the United States; and any property or interest of any foreign country or national thereof shall vest, when, as, and upon the terms, directed by the President, in such agency or person as may be designated from time to time by the President, and upon such terms and conditions as the President may prescribe such interest or property shall be held, used, administered, liquidated, sold, or otherwise dealt with in the interest of and for the benefit of the United States, and such designated agency or person may perform any and all acts incident to the accomplishment or furtherance of these purposes...

(2) Any payment, conveyance, transfer, assignment, or delivery of property or interest therein, made to or for the account of the United States, or as otherwise directed, pursuant to this subsection or any rule, regulation, instruction, or direction issued hereunder shall to the extent thereof be a full acquittance and discharge for all purposes of the obligation of the person making same; and no person shall be held liable in any court for or in respect to anything done or omitted in good faith in connection with the administration of, or in pursuance and in reliance on, this subdivision, or any rule, regulation, instruction, or direction issued hereunder.

\textit{Id.}


\textsuperscript{15} U.N. CHARTER art. 41. Article 41 authorizes the U.N.'s Security Council to impose various forms of non-military sanctions in order to maintain or restore international peace. Specifically, Article 41 provides:

The Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and it may call upon Members of the United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations.
derives from the International Security Development and Cooperation Act (ISDCA) and other legislation that targets specific countries.  

Executive authority to impose economic sanctions against U.S. nationals who engage in commerce with disfavored foreign countries originated out of World War I, when Congress enacted the TWEA. Congress intended the TWEA to severely limit U.S. trade with Germany and other Axis powers as a means to destabilize these countries' economies. At the time of enactment, the TWEA authorized the President to regulate U.S. trade with any perceived enemy. In 1977, Congress amended the TWEA, giving the President authority to invoke the broad TWEA powers only during times of war.

To compensate for this limitation, Congress also enacted the IEEPA in 1977 which authorizes the President to impose economic sanctions against designated countries. These sanctions include freezing assets of such countries under the jurisdiction of the United States, prohibiting U.S. citizens and companies from engaging in various financial transactions with designated countries or nationals of designated countries and other actions intended to pressure target countries to cease or moderate their...
objectionable policies or conduct. Most foreign embargoes administered under OFAC regulations are imposed under the auspices of the IEEPA, since most embargoes are imposed against nations with which the United States is not at war. Embargoes under the IEEPA may take various forms. Some embargoes are selective in nature—for example, prohibiting only certain types of imports from a target country. Other embargoes are comprehensive, prohibiting most economic transactions with a designated country or its nationals.

Congress authorized the President, and indirectly OFAC, to exercise a great deal of discretion in the imposition and execution of embargo measures and other types of economic sanctions. This high level of discretion is generally justified, largely because embargoes are imposed against specific countries under unique sets of facts and circumstances and with diverse foreign policy and national security goals in mind. Therefore, while most OFAC-administered embargoes are substantially similar in form and substance, each program is administered on a country by country basis, each with unique program elements. The following section will briefly outline how OFAC typically regulates embargo actions and other economic sanctions against rogue countries.

B. ADMINISTRATIVE PROCEDURES OF THE OFFICE OF FOREIGN ASSET CONTROL

Since its creation, OFAC has wielded an expansive range of powers against scores of countries. In fact, OFAC is one of the

21 Id. An example of an embargo which sought to limit only selective transactions such as particular types of export commodities was the OFAC administered embargo against South Africa during the 1980's and early 1990's. See 22 U.S.C. § 5001 (repealed 1994).
22 See Newcomb, supra note 8, at 180-81. The U.S. embargoes against Cuba and North Korea are examples of comprehensive embargo schemes. See, e.g., Cuban Democracy Act, 22 U.S.C. §§ 6001-6010 (1994).
25 Id. at 215.
26 OFAC was created shortly before the United States entered the Second World War, particularly in response to the German invasion of Norway and Denmark. Newcomb, supra note 24, at 214. OFAC froze all Norwegian and Danish assets under the jurisdiction of the
most powerful and feared agencies of the federal government.\textsuperscript{27} OFAC has significant powers in formulating and promulgating national security and foreign affairs policy, enforcement activities and regulations.\textsuperscript{28} Specifically, OFAC's principal responsibilities include:

(1) promulgating embargo regulations, (2) issuing licenses and interpretive administrative rulings, (3) monitoring blocked assets, (4) ensuring that its regulations comply with statutory, executive and regulatory requirements, (5) coordinating and conducting investigations of violations, (6) imposing civil fines for embargo violations, (7) referring cases of violations for criminal prosecution, and (8) providing training, technical and legal support to other federal agencies involved in related activities.\textsuperscript{29}

Because of the agency's wide latitude of discretion, OFAC regulations can vary considerably within their scope and reach.\textsuperscript{30} Embargo regulations against certain countries, such as Cuba and North Korea,\textsuperscript{31} may be comprehensive, prohibiting almost all financial or commercial transactions regardless of where the

---

\textsuperscript{27} In addition to its powers to impose stiff civil penalties against violators of its regulations, OFAC can initiate criminal prosecutions, leading to even greater fines and imprisonment. \textit{See} 50 U.S.C. app. § 16 (1994).

\textsuperscript{28} Newcomb, \textit{supra} note 8, at 177-78.

\textsuperscript{29} Id.


\textsuperscript{31} Other countries which are presently subject to a comprehensive embargo include Iran, Iraq, and Libya.
transactions take place, while OFAC regulations against other countries are tailored to particular transactions, such as specific financial dealings or export commodities. Complicating matters is the fact that many of OFAC's regulations, while fairly detailed, are deliberately vague, allowing OFAC room to maneuver, depending on particular fact situations.

Under most embargo actions, OFAC regulations allow for some types of financial or commercial transactions, even with respect to countries subject to a comprehensive embargo. But these transactions, in every case, must somehow be authorized by OFAC. Such authorization is usually made through a licensing scheme. Essentially, OFAC issues licenses in two forms: (1) a general license, the text of which is incorporated into specific OFAC regulations as published in the Code of Federal Regulations (CFR), and (2) a specific license, which OFAC may grant on a case by case request.

General licenses typically authorize a certain type of transaction which is specified in the CFR section. Sometimes general licenses may be subject to particularized conditions or prerequisites, but assuming these are met, a company or individual is authorized to freely engage in the transaction with no further permission from OFAC. Specific licenses, on the other hand, require in each case a written application to execute transactions that otherwise would be prohibited by OFAC regulations. Absent either type of license, virtually all commercial or financial transactions are prohibited with those countries that are subject to

---

32 Hunt, supra note 30, at 53.
33 Id. For example, the phrase "property subject to the jurisdiction of the United States" is intentionally vague, allowing OFAC a very broad basis of interpretation. Id. This phrase, which is used repeatedly in scores of OFAC regulatory sections, is left undefined.
34 For example, most embargoes permit charitable transactions that involve the provision of necessary food supplies and medicines.
36 Id.
38 See Cuba, supra note 35, at 175.
a comprehensive embargo.\textsuperscript{40} Violators of embargo restrictions may face serious consequences.

Violations of OFAC regulations can lead to significant penalties. Corporate criminal penalties range up to $1 million, and individuals may face up to $100,000 in criminal fines and may be imprisoned for as many as ten years.\textsuperscript{41} In addition, OFAC may administratively impose a civil fine in an amount up to $50,000 for each infraction of its regulations.\textsuperscript{42}

Because the enabling legislation discussed above in Section A grants broad discretion to the President, and through him, to OFAC itself, federal courts typically defer to OFAC's regulatory and enforcement activities.\textsuperscript{43} Under ordinary circumstances, such broad discretion in the hands of OFAC and the correspondingly high level of judicial deference would be understandable. But when, as recently, it appears that OFAC frequently employs bad judgement, abuses its broad level of discretion and becomes practically unaccountable to any higher executive authority, it is time that Executive, Congressional and Judicial authorities take notice.\textsuperscript{44}

\begin{flushleft}
\textsuperscript{40} Id.; see Cuba, supra note 35, at 175.
\textsuperscript{41} See 50 U.S.C. app. § 16 (1994).
\textsuperscript{42} Id.
\textsuperscript{43} De Cuellar v. Brady, 881 F.2d 1561, 1565 (11th Cir. 1989) (stating that OFAC decisions are entitled to a great amount of deference and should be reviewed only under an arbitrary and capricious standard); see also Consarc Corp. v. Office of Foreign Assets Control, 71 F.3d 909, 915 (D.C. Cir. 1995) (stating OFAC's interpretation of a regulation receives a greater degree of deference and "must prevail unless plainly inconsistent"); Milena Ship Management Co. v. Newcomb, 995 F.2d 620, 624 (5th Cir. 1993) (finding an OFAC presumption to be reasonable under circumstances).
\textsuperscript{44} Recent events reported in official government reports and the public press have severely criticized OFAC and its director. See 140 CONG. REC. H2853 (daily ed. Apr. 28, 1994) (statement of Rep. Doug Bereuter of Nebraska that OFAC is an "apparently unaccountable agency"); see also Treasury Official's Meetings Probed, GREENSBORO NEWS & REC., May 11, 1996 at B6; Treasury Agent Reprimanded Over Meetings, CHARLESTON GAZETTE & DAILY MAIL, May 11, 1996, at B5. The Treasury Department's Inspector General investigated 11 cases involving questionable behavior by the director of OFAC based on a series of news reports by the Associated Press in 1994 and 1995. John Solomon, Treasury Official Found to Have Met with Probe Subjects Outside Office, ASSOC. PRESS, May 10, 1996. In addition, several OFAC employees made allegations that partly prompted the Inspector General's investigation. Id. Instances of questionable conduct included improper ex parte meetings with investigation subjects, acceptance of gifts, potential conflicts of interest, and damaging "leaks" of information that may have compromised OFAC and Justice Department investigations. Id.; Greg Hitt, Treasury Official Says He Never Undermined Arab Bank Probe, CAP. MARKETS REP., June 12, 1996; Libyan Laundering Probe Compromised, Officials
\end{flushleft}
II. OFAC EMBARGO MEASURES AND INTELLECTUAL PROPERTY

Traditionally, OFAC regulations have granted a general license for the payment of all fees necessary to obtain and maintain intellectual property protection in embargoed countries. In recent years, however, OFAC and its Director have taken steps tending to limit the exemption of intellectual property transactions. This trend flies in the face of the intense efforts the U.S. government has made to shore up worldwide intellectual property protection.

A. TRADITIONAL EXEMPTION OF INTELLECTUAL PROPERTY TRANSACTIONS

Since their inception, and until recently, all OFAC embargo regulations have included a general license for intellectual property transactions. Throughout the duration of the embargo sanctions

---

Says, NEW ORLEANS TIMES-PICAYUNE, June 23, 1996, at A5. According to OFAC internal documents, OFAC's director allegedly entertained a proposal to abduct Marc Rich, a billionaire fugitive in Switzerland, and return him to the United States to stand trial for various tax evasion and fraud charges and for violations of the Iranian embargo. Greg Hitt, Bond, Treasury Bond: Top Agency Enforcer Mulled a Kidnapping—Plot to Nab Fugitive Marc Rich Left Colleagues Shaken, Not Stirred to Act, WALL ST. J., June 13, 1996, at A6. The plan called for OFAC to pay $1 million to private bounty hunters to kidnap Mr. Rich, whom the Swiss Government has protected, despite numerous efforts of the U.S. government to have him extradited, and bodily return him to the United States. Id. During a July 1992 meeting, various OFAC staff members considered the kidnapping proposal by a former official of the Nixon Justice Department. Id. See also John Solomon, Treasury Agency Entertained Plan to Kidnap Fugitive, ASSOC. PRESS, June 12, 1996. Alarmed by the surge of allegations of misconduct, the Chairman of a House Banking Subcommittee recently ordered the General Accounting Office to conduct its own investigation of OFAC and its director. Greg Hitt, GAO, Spurred by Congress, To Probe Treasury's Newcomb, DOW JONES INT'L NEWS SERV., June 13, 1996; see also John Solomon, Pan Am 103 Families Want Treasury Official Ousted, ASSOC. PRESS, June 13, 1996. For a thorough discussion of the litany of possible OFAC misconduct, see Benjamin Weiser, Sanctions Czar: Big Gun or Loose Cannon?: R. Richard Newcombe Inspires Respect, Anger; Few are Neutral on Sanctions Czar Newcombe, WASH. POST, Aug. 4, 1996, at H1.

See, e.g., OFAC Reg., 31 C.F.R. § 500.528 (1996). This section covers the general license for U.S. citizens or companies to engage in intellectual property transactions as they relate to the ongoing embargoes against North Korea, Cambodia, and Vietnam:

- Certain transactions with respect to blocked foreign patents, trademarks and copyrights authorized.
- (a) The following transactions by any person who is not a designated national are hereby authorized:
  - (1) The filing and prosecution of any application for a blocked foreign
against North Korea (since 1950), Vietnam (since 1964) and Iran
(since 1979), direct and indirect payments for official fees and
services for the protection of patents, trademarks and copyrights
have been authorized by virtue of general licenses.\footnote{46}

The long-standing policy of the U.S. government to exempt
intellectual property payments from the class of prohibited
transactions clearly manifests the importance which the govern-
ment has placed on protecting these types of assets. In granting
general licenses for intellectual property payments, the federal
government has, until recently, consistently struck the proper
balance between the benefits and burdens of allowing these types
of currency payments to be paid to the governments and nationals
of embargoed nations.\footnote{47}

In most countries, patent, trademark and copyright protections
are solely dependent upon the granting or registration of these
rights by the respective government.\footnote{48} The practical inability of
U.S. companies to file applications for patent, trademark or
copyright protection, or to pay periodic fees required for the

\begin{itemize}
\item[\text{1}]\textbf{patent, trademark or copyright, or for the renewal thereof;}
\item[\text{2}]\textbf{The receipt of any blocked foreign patent, trademark or copyright;}
\item[\text{3}]\textbf{The filing and prosecution of opposition or infringement proceedings}
\textbf{with respect to any blocked foreign patent, trademark or copyright, and}
\textbf{the prosecution of a defense to any such proceedings;}
\item[\text{4}]\textbf{The payment of fees currently due to the government of any foreign}
\textbf{country, either directly or through an attorney or representative, in}
\textbf{connection with any of the transactions authorized by paragraphs (a)(1),
\textbf{(2) and (3) of this section or for the maintenance of any blocked foreign}
\textbf{patent, trademark or copyright; and}
\item[\text{5}]\textbf{The payment of reasonable and customary fees currently due to}
\textbf{attorneys or representatives in any foreign country incurred in connec-
\textbf{tion with any of the transactions authorized by paragraphs (a)(1), (2), (3)
\textbf{or (4) of this section.}}
\end{itemize}

\footnotesize{31 C.F.R. § 500.528. \textit{See also} OFAC Reg., 31 C.F.R. §§ 535.528 & 560.509 (dealing with the
embargo against Iran); OFAC Reg., 31 C.F.R. § 565.503 (1993) (relating to the embargo
action against Panama).

Similarly, OFAC has traditionally also granted a general license for intellectual property

\footnote{46} Letter from Robin A. Rolfe, Executive Director, International Trademark Association,
to the Honorable Robert E. Rubin, Secretary of the Treasury 1 (Aug. 8, 1995) (on file with
the International Trademark Association and with the author).

\footnote{47} \textit{Id.}

\footnote{48} \textit{See} 1a \textbf{JEROME GILSON, TRADEMARK PROTECTION AND PRACTICE, § 9.02, 9-2 to 9-5
(1996).}
maintenance of these assets, will inevitably lead to their failure to obtain or maintain important rights.\textsuperscript{49} Thus, the federal government has traditionally and wisely refused to prohibit U.S. citizens and companies from being able to protect their intellectual property assets, even in countries with which the government has foreign policy or national security concerns. Essentially, the government had, in the past, found that the benefit of protecting U.S. trademarks, copyrights and technology in embargoed countries greatly outweighed the government's foreign policy interest in denying hard currency to such nations.\textsuperscript{50}

B. RECENT OFAC REGULATIONS HAVE LIMITED INTELLECTUAL PROPERTY TRANSACTIONS

Despite the government's long-standing policy to exempt intellectual property payments from embargo restrictions, in 1993 OFAC promulgated the Yugoslavia embargo regulations with a severe limitation on patent, trademark and copyright transactions.\textsuperscript{51} Instead of granting a general license for intellectual property transactions, as was always done in past embargoes, OFAC required all patent, trademark and copyright related official fees to be paid to a blocked account in a U.S. bank, presumably for the post-embargo benefit of the government of Yugoslavia.\textsuperscript{52}

\textsuperscript{49} Of course, the same could be said for the inability of a U.S. company to initiate, prosecute or defend against infringement actions, generally heard before a court.

\textsuperscript{50} No one has ever suggested that any embargoed country has ever attempted to exploit intellectual property transactional payments as a means of earning hard currency or avoiding U.S. imposed embargoes.


\textsuperscript{52} OFAC Reg., 31 C.F.R. § 585.515. The OFAC regulations incorporated most of the language of previous embargo regulations, see, e.g., 31 C.F.R. 500.528 (1994) (discussing transactions concerning patents, trademarks, and copyrights), with a few crucial differences. Section 585.515 reads, in part, as follows:
In addition, OFAC prohibited the payment of any service fees to attorneys and other legal representatives if the attorneys or representatives were located in Yugoslavia.\(^{53}\) The regulations did allow service fee payments to be made to individuals located outside of Yugoslavia, provided that the payment of attorney's fees did not result in the transfer of these funds to the Yugoslavian government or individuals residing in Yugoslavia.\(^{54}\) In addition, any payments that were made to a blocked account pursuant to the OFAC regulations had to be reported to OFAC.\(^{55}\)

While OFAC's regulations relating to the embargo against Yugoslavia did not completely prohibit intellectual property

---

**Certain transactions related to patents, trademarks and copyrights authorized.**

(a) All of the following transactions in connection with patent, trademark or copyright, or other intellectual property protection in the United States or the FRY (S&M) [Federal Republic of Yugoslavia] are authorized.

(1) The filing and prosecution of any application for a patent, trademark or copyright, or for the renewal thereof;

(2) The receipt of any patent, trademark or copyright; and

(3) The filing and prosecution of opposition or infringement proceedings with respect to any patent, trademark or copyright, and the prosecution of a defense to any such proceeding.

(b) The payment of reasonable and customary fees currently due to the United States Government or to attorneys or representatives within the United States in connection with any transaction authorized by paragraphs (a)(1)-(3) of this section may be made from a blocked account held in the name of the entity in the FRY (S&M) holding the patent, trademark or copyright.

(c) The payment of fees currently due to the Government of the FRY (S&M) directly or through an attorney or representative, in connection with any of the transactions authorized by paragraphs (a)(1)-(3) of this section, or for the maintenance of any patent, trademark or copyright, must be made into a blocked account in a domestic U.S. financial institution in the name of the appropriate governmental entity. In addition, fees currently due to individual attorneys or representatives in the FRY (S&M) in connection with any of the transactions authorized by paragraphs (a)(1)-(3) of this section may not be transferred to the FRY...[but may be paid to entities located outside the FRY (S&M)].

31 C.F.R. § 585.515 (emphasis supplied).

\(^{53}\) 31 C.F.R. § 585.515(c). It stands to reason that, at the time of the U.S. embargo action against Yugoslavia, most attorneys licensed to practice trademark, patent or copyright law in Yugoslavia resided in Yugoslavia.

\(^{54}\) OFAC Reg., 31 C.F.R. § 585.523 (1994).

\(^{55}\) 31 C.F.R. § 585.515(d).
transactions, they severely limited the means that U.S. companies had at their disposal to protect their patents, trademarks and copyrights. First, at the time OFAC issued its regulations in March 1993, there was absolutely no reason to expect the Yugoslavai Government to accept official fees paid to a blocked account in a U.S. bank.66 As it happens, the Yugoslavai Government appears to have accepted some of these payments. But OFAC's unjustified presumption that this would be the case could have put countless companies' intellectual property assets in jeopardy if this presumption turned out to be false.

Second, since OFAC regulations prohibited any payment of attorney fees for patent, trademark and copyright matters to anyone in Yugoslavia, U.S. companies had to scramble to find duly licensed attorneys located outside Yugoslavia to conduct intellectual property work in Yugoslavia.67 Assuming that a U.S. company was successful in securing the legal services of an attorney located outside Yugoslavia who could represent its interests before the Yugoslavai Patent and Trademark Office or its law courts, the additional costs associated with this inconvenience (e.g., travel and additional communication expenses) could be burdensome, if not prohibitive, for some companies.

In promulgating the Yugoslavia sanction regulations, OFAC was entirely silent as to why it did not grant a general license for intellectual property transactions.68 Nor did OFAC make any special announcement indicating the foreign policy or national security basis for breaking with its long standing policy to grant such a license.69 In fact, there is no authority at all which explains OFAC's action in limiting the rights of U.S. intellectual property owners in Yugoslavia. One can only conclude that some official at OFAC was so overzealous in punishing or pressuring the Yugoslavai government, that he or she entirely lost sight of the acknowledged benefits of granting the traditional general license for intellectual property transactions.

OFAC's limitation of the exemption for intellectual property

66 31 C.F.R. § 585.515(c).
67 31 C.F.R. §§ 585.515(c), 585.523.
69 Id.
transactions during the embargo against Yugoslavia had unwelcome and potentially damaging, long term effects on some U.S. businesses. At the time of the embargo, Yugoslavia was already known to have a fair amount of intellectual property enforcement problems. One company found so many counterfeit or infringing products in the Yugoslavian market, that it was forced to file more than thirty trademark infringement suits between 1992 and 1995. By making it more difficult for U.S. companies to protect their patent, trademark and copyright assets during the embargo, OFAC may have unwittingly assisted the growth of intellectual property abuse in Yugoslavia.

OFAC's unwise repudiation of its long standing policy of issuing general licenses was more firmly established in August 1994, when OFAC changed regulations to severely tighten U.S. embargo measures against Cuba. In squeezing yet more blood out of the thirty-one year old embargo, OFAC essentially prohibited almost any conceivable financial or commercial transaction.
In the area of intellectual property regulation, OFAC canceled the general license, which had existed since the outset of the Cuban embargo imposed in 1963.\textsuperscript{66} In its stead, OFAC regulations required that all official fees for the filing, prosecution, maintenance and defense of intellectual property rights had to be paid to a blocked account in a U.S. bank.\textsuperscript{66} In addition, all attorney service fees also had to be paid to a blocked account.\textsuperscript{67}

By severely restricting the regulations relating to intellectual property transactions with Cuba, OFAC once again showed a careless disregard for the property rights of U.S. owners of patents, trademarks and copyrights in Cuba. Again, OFAC's action demonstrated its utter failure to appreciate that the benefits of ensuring the adequate protection of important intellectual property assets in Cuba far outbalanced its interest in denying the Cuban government whatever hard U.S. currency these types of transactions could provide.\textsuperscript{68}

Treasury Department is revoking the general authorizations permitting cash remittances to Cuba, except to facilitate lawful immigration; revoking the general authorizations for persons engaged in travel-related transactions in Cuba for purposes of family visits and professional research; and significantly restricting the general authorization incorporating the authorization contained in the General License GIFT

\ldots to limit the permissible contents of gift parcels eligible for exportation to Cuba to medicine, food and strictly humanitarian items.

\textit{Id.} at 44,884.


\textsuperscript{68} 31 C.F.R. § 515.528.

\textit{Id.}

\textsuperscript{66} For example, one can assume that most payments of official fees for intellectual property matters in Cuba are used to offset administrative and personnel costs of the Cuban Patent and Trademark Office and not to line the coffers of the Castro military or economic programs. \textit{See Letter from Robin A. Rolfe, Executive Director, International Trademark Association, to the Honorable Robert E. Rubin, Secretary of the Treasury} 1-2 (Aug. 8, 1995) (on file with the International Trademark Association and with the author).

Although there are literally billions of dollars of valuable U.S. property rights at stake, Cuba gains a completely insignificant amount of hard currency from trademarks payments. On a service by service basis, the fees imposed by the Cuban government for the registration, renewal or other servicing of trademarks are well within the normal range for other Latin American and Caribbean countries. This is not, at least to date,
OFAC's revocation of the general license for patent, trademark and copyright transactions in Cuba was particularly damaging since it was very doubtful that the Cuban government intended to honor payments to a blocked account. The Cuban government's lack of willingness to recognize payments to a blocked account was understandable. Since the United States has conducted the embargo against Cuba since 1963 and shows no signs of lifting it anytime soon, the Cuban government was under no illusion that it would see any intellectual property official fees during the next few years. For the same reason, Cuban attorneys were also highly unlikely to acknowledge payments for their services to a blocked account, payments they may not see during their lifetimes.

While OFAC repudiated its long standing policy to grant or maintain general licenses for intellectual property transactions in its embargo regulations for Yugoslavia and Cuba, OFAC regulations still allowed for the petition of special licenses for these types of transactions. The availability of special licenses for patent, trademark or copyright fees in Yugoslavia and Cuba, however, was generally believed to be an insufficient substitute for the general license that OFAC traditionally granted. Due to excessive an area the Cuban government has exploited to earn hard currency.

Id.


71 See supra notes 36-40 and accompanying text for a (discussing availability of specific licenses for transactions otherwise prohibited under OFAC regulations).

72 For example, the International Trademark Association, which represents over 3000 trademark owners, noted that the specific licensing provisions of the OFAC regulations were not adequate to protect important trademark rights in Cuba. See Letter from Rolfe to Secretary Rubin, supra note 68, at 2.

The OFAC licensing process is not an acceptable substitute for the general license that was in effect without serious complaint from 1963 to 1994. Although we understand that some licenses are, in fact, being granted, several INTA [International Trademark Association] members have endured extended delays in receiving such licenses or are still waiting, sometimes after several months. INTA well understands the volume of Cuba-related license applications faced by OFAC, especially since last August. Indeed, we understand the backlog of licenses, now nearly 1500, is growing steadily. Despite OFAC's best efforts, the specific license process is not providing the certain and reliable means
delays and a huge backlog of special licensing petitions, OFAC could not adequately assure the proper and timely payment of official or service fees in these embargoed countries.  

One of the most damaging aspects of OFAC’s conduct in revising the Cuban embargo regulations was that neither OFAC nor the Clinton Administration called much attention to the revocation of the general license for intellectual property transactions. 

Relying on the thirty year old general license provision, persons paying renewal fees in Cuba for famous trademarks, for instance, after the August 1994 revision were thus unwittingly liable for civil fines up to $50,000 for each infraction.

Once the International Trademark Association and other interested groups learned of OFAC’s revocation of the general license for intellectual property transactions under the Cuban embargo, these groups lobbied OFAC and the Treasury Department to reinstate the general license. Ultimately, these groups were

businesses need to protect property that is absolutely central to their viability worldwide.

Id. The author is aware of instances in which applications for special licenses of various sorts were merely stuffed in a drawer and were not processed properly by OFAC staff members.

See Cuban Assets Control Regs., 59 Fed. Reg. 44,884-86 (1994) (restrictions on remittances and travel transactions). In imposing numerous restrictions in the Cuban Embargo Regulations, OFAC’s Final Rule included very detailed discussions of the new restraints against travel to Cuba by U.S. citizens, gifts and money sent to Cuban nationals, and other types of transactions. Id. Buried in the text of OFAC’s announcement was a short sentence relating to additional restrictions against intellectual property payments. Id. at 44,884.

See supra notes 41-42 and accompanying text (discussing the criminal and civil penalties for violating OFAC regulations).

See, e.g., Letter from Rolfe to Secretary Rubin, supra note 68; see also U.S. Embargo of Cuba - Call for Member Action, MEMBER BULL. (Int'l Trademark Assoc.), Sept. 1995. On August 28, 1995, officials and attorneys from the International Trademark Association met with high ranking White House, Treasury and State Department officials seeking the reinstatement of the general license for intellectual property matters in Cuba. Id. In response to these communications, R. Richard Newcomb, the person who revoked the general license in the first place, stated: “The Administration is currently in the process of reevaluating whether the foreign policy objective of denying the Government of Cuba the hard currency earnings such payments provide is worth pursuing in light of the disadvantage posed to U.S. businesses in protecting their intellectual property rights, also an Administration priority.” Letter from R. Richard Newcomb, Director of OFAC, to Robin A. Rolfe, Executive Director, International Trademark Association (Aug. 24, 1995) (on file with the
successful in persuading the government that the need to adequately protect intellectual property rights of U.S. businesses in Cuba outbalanced the Clinton Administration's foreign policy objective of limiting the Cuban government's access to hard currency derived from such transactions. On October 20, 1995, slightly more than a year after OFAC revoked the general license, OFAC reinstated it.

III. THE U.S. GOVERNMENT'S INTEREST IN SECURING STRONG INTELLECTUAL PROPERTY PROTECTION, ESPECIALLY IN EMBARGOED COUNTRIES

Since at least 1985, the United States government has considered international protection of intellectual property to be of the highest priority. The federal government has demonstrated its firm commitment to this noteworthy goal by encouraging international accession to, and enforcement of, international treaties such as the Paris Convention, the North American Free Trade Agreement (NAFTA) and especially the General Agreement on Tariffs and Trade/Trade-Related Aspects of Intellectual Property Rights (GATT/TRIPS). Recently, the United States has also gotten tough with countries that fail to adopt stringent intellectual property legislation or enforcement policies. The government's main weapon of choice against countries with weak protection laws

International Trademark Association and with the author).

77 Special Member Alert - U.S. Reinstates General License for I.P. Payments to Cuba, MEMBER BUL. (Int'l Trademark Assoc.), Oct. 19, 1995. John Reynolds of Debevoise & Plimpton, INTA's pro bono counsel, stated, By this decision, the Administration reaffirms the importance of trademark right protection. The restoration of the general license for intellectual property-related payments helps provide a certain and reliable means of trademark protection, and reduces U.S. trademark owners' concerns about third-party registrations. Id. Robin Rolfe, INTA's Executive director remarked, "While INTA takes no position on the embargo as a whole, we believe companies always should have the right to protect their trademark rights." Id.


79 See supra notes 2-4 and accompanying text (discussing the U.S. government's commitment to securing strong intellectual property protection throughout the world).

80 See generally GAO Rep., supra note 2; Corday, supra note 2; Reichman, supra note 2.
or enforcement is to impose, or threaten to impose, economic sanctions.\footnote{81}{USTR Names China a Priority Country, Takes Other I.P. Disputes to WTO, 10 World Intell. Prop. Rep. (BNA) No. 6, at 179-80 (June 1996). In its most recent threat of sanctions against China for weak enforcement against intellectual property abuse, the U.S. government indicated that it would impose sanctions worth over $3 billion. Id. at 180. See also Office of the U.S. Trade Representative's Fact Sheet on Special 301 Intellectual Property Lists, Released April 30, 1996, 10 World Intell. Prop. Rep. (BNA) No. 6, at 196-202 (June 1996). The federal government has also recently relied on the World Trade Organization's (WTO) settlement dispute opportunities provided by the TRIPS agreement to deal with countries with less than adequate patent, trademark or copyright protection enforcement. Id.}

The United States' commitment to strengthen patent, trademark and copyright protection abroad is well placed. With over $200 billion in losses to the United States because of worldwide intellectual property abuse, the U.S. government must maintain its efforts to shore up protection and enforcement policies in suspect countries.\footnote{82}{See generally ANTI-COUNTERFEITING CONSUMER PROTECTION ACT OF 1996, H.R. REP. No. 104-556 (1996), reprinted in 1996 U.S.C.C.A.N. 1074 (discussing at length the enormous economic losses to U.S. companies due to international counterfeiting). The committee found that U.S. businesses lose $200 billion a year because of illegal counterfeiting. Id. at 2. The committee also estimated that between 5% and 8% of all goods sold in the world are knock-offs. Id. See also Protecting Consumers from Counterfeiting: Hearings on H.R. 2511 Before the Subcomm. on Courts, and Intell. Prop. of the House Comm. on the Judiciary, 104th Cong. (1995) (statement of John S. Bliss, President of the International Anti-Counterfeiting Coalition); Katharine Hull, Counterfeits - EU Acts, MANAGING INELL PROP., Jan. 1995, at 24 (indicating that the European Union Council of Ministers estimates that counterfeit goods account for as much as 5% of total world trade and result in the loss of about 100,000 jobs in Europe alone).}

This is particularly true for countries that are subject to U.S. embargo actions. Most OFAC embargoes prohibit U.S. businesses from exporting their products and services into the target country.\footnote{83}{Cuban Liberty and Democratic Solidarity (Libertad) Act of 1996, Pub. L. No. 104-114, 110 Stat. 785 (1996). In a direct, emotional response to the Cuban government's shooting down of two unarmed American aircraft, President Clinton signed the so-called Helms-Burton legislation (H.R. 927) which, among other things, allows U.S. citizens or companies to sue foreign companies that invest or trade with Cuba. See President's Statement on Cuban Liberty Act, 32 WEEKLY COMP. PRES. DOC. 479 (Mar. 12, 1996).}

One recent piece of legislation even goes so far as to punish foreign companies that engage in trade with a targeted nation.\footnote{84}{Newcomb, supra note 8, at 173-75.}

While an embargo will undoubtedly severely diminish the supply of authentic U.S. products in a target country, an embargo does nothing to lessen the demand for these products, especially popular
and famous commodities such as Levi's® jeans, Coca Cola® soda, and Nike® shoes. It is an economic inevitability that the target nation's demand for U.S. products will be satisfied through some source—and one probable source is the counterfeiter.

Embargoed countries are especially congenial environments for counterfeiters and other abusers of American intellectual property. First, a U.S.-imposed embargo guarantees that U.S. products are unavailable, at least from the manufacturing source. Second, an embargo, particularly a long term one, may have the intended result of weakening or destabilizing the target country's economy. This development would undoubtedly have the effect of increased unemployment and cheaper labor costs. A combination of these factors, one can easily assume, would be a very inviting prospect to counterfeiters or other infringers. On top of this, if OFAC regulations make it difficult or practically impossible for

---

85 The development of mass media, worldwide advertising and marketing by American companies and the ever-increasing international sales of American products have vastly enhanced consumer recognition of these products, and consequently, increased the demand for these goods abroad.

86 One source could be the illegal exportation of U.S. products from the United States by the manufacturer or a U.S. distributor. Another could be the exportation by a foreign affiliate of the U.S. manufacturer, which would also violate OFAC regulations. Another possible source could be an unrelated foreign distributor, one that the U.S. manufacturer does not control in any way. See Second Annual International Business Law Symposium: Trading with Cuba: The Cuban Democracy Act and Export Rules, 8 FLA. J. INT'L L. 335, 367 (1993) (statement of Clara David discussing the general availability of Coca Cola in Cuba and the exportation of the product from an independent Mexican bottler company).

87 Newcomb, supra note 8, at 169-175.


89 See Mijatovic, supra note 61, at 4-7. During the embargo against Yugoslavia, the Wm. Wrigley Jr. Company, which was barred from selling its world renown chewing gums in Yugoslavia, noted the wide distribution of counterfeit or infringing chewing gum products made by numerous manufacturers. Id. at 4. Consequently, the company filed more than 30 law suits against these manufacturers and their distributors. Id. See also United States v. Zevallos, 748 F. Supp. 1569, 1572 (S.D. Fla. 1990) (detailing a scheme to manufacture and distribute counterfeit Winston cigarettes in Cuba).
U.S. companies to protect their intellectual property rights in embargoed countries, the consequences can be devastating. Counterfeiters and other infringers of U.S. trademarks, patents and copyrights would then be able to produce knock-offs of American products with impunity.90

CONCLUSION

It is essential that OFAC officials recognize the strong Executive and Congressional commitments to strengthening intellectual property rights throughout the world, even in countries where the United States may have long term or temporary national security or foreign policy concerns. Otherwise, OFAC's careless and cavalier conduct in denying a general license for intellectual property transactions in future embargoes may result in the creation of a counterfeiters' paradise. It is entirely against the interests of the United States to set the stage where trademark counterfeiters, copyright pirates and patent infringers may adopt American intellectual property in an embargoed country without any apprehension that the genuine owner can legally enforce any rights against them. Essentially, OFAC should keep its hands off American intellectual property rights.

90 Hearings on H.R. 927 Before the Subcomm. on Trade, House Comm. on Ways and Means, 104th Cong. (1995) (prepared statement of John S. Kavulich, President of the U.S. Cuba Trade and Economic Council, Inc.). Discussing the need to ensure the unfettered ability to protect intellectual property rights in Cuba, Mr. Kavulich rightly observed that "[n]o one wishes a repeat of events in today's Republic of South Africa where, among other companies, McDonald's, Toys 'R' Us, and Victoria's Secret lost the rights to their trademarks and must now incur hundreds of thousands of dollars in court-related costs." Id. Due to the previous embargo against South Africa, many American businesses were barred from exporting their products or services to South Africa, thereby making it difficult to satisfy the trademark use requirements under South African trademark law. See Ron Wheeldon, South Africa: The McDonald's Decision - Right or Wrong, TRADEMARK WORLD, Nov. 1995, at 14-16. This development made it very inviting to South African businesses to adopt some of the United States' most famous trademarks. Id. See also South African Firm Fights McDonald's 8, World Intell. Prop. Rep. (BNA) No. 6, at 183 (June 1994).