No. 14-512

IN THE

Supreme Court of the United States

GENERAL CIGAR CO., INC.,
Petitioner,

v.

EMPRESA CUBANA DEL TABACO, D/B/A CUBATABACO,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF FOR PETITIONER

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The predominant theme of Cubatabaco's brief in opposition is that OFAC's one-page 1996 letter to Cubatabaco's counsel is essentially unreviewable as an exercise of the President's foreign affairs power. Further, according to Cubatabaco (at 3), since the Executive can do virtually anything in the area of foreign commerce, even if the Federal Circuit's reading of the Cuban Asset Control Regulations (CACR) were overturned, OFAC could hand Cubatabaco a victory anyway. Thus, Cubatabaco argues, General Cigar has no claim to this Court's review, even though two courts of appeals have rendered conflicting decisions on an important regulation governing the Cuban embargo that is likely to affect other sanctions regimes as well.

If anything, the implications of Cubatabaco's argument underscore the need for this Court's review. Even in the field of foreign commerce, the Executive must operate according to the rule of law, adhering faithfully to statutes and regulations unless and until those are repealed—an entirely speculative possibility here. Congress has codified the CACR into law, and the President has not changed the embargo provisions at issue here. The relevant regulation, 31 C.F.R. § 515.527(a), remains in force, and its proper interpretation is suitable for this Court's review.

At stake in this case are settled property rights that are now imperiled by a court of appeals' mistaken deference to an unreasoned agency letter and the court's failure to apply traditional rules of claim preclusion. Moreover, by deviating from the Second Circuit's reading of the CACR, the Federal Circuit has opened a hole in the Cuban embargo. That consequence makes review by this Court imperative.

Cubatabaco urges (at 2) that review would "complicate and embarrass" the Executive in its relations with Cuba. This Court has not hesitated to grant review of important legal issues even when they might affect foreign affairs. *See, e.g.*, *Zivotofsky ex rel. Zivotofsky* v. *Clinton*, 132 S. Ct. 1421, 1427 (2012); *Japan Whaling Ass'n* v. *American Cetacean Soc'y*, 478 U.S. 221, 230 (1986). Although the context of this case, relations with Cuba, is somewhat freighted, the task before the courts is straightforward: to render the correct interpretation of an agency regulation. Given the conflict in the lower courts, only this Court can do so now.

I. THE FEDERAL CIRCUIT'S DECISION CONFLICTS WITH SECOND CIRCUIT DECISIONS ON THE CUBAN EMBARGO AND IMPROPERLY DEFERS TO AN UNREASONED AGENCY LETTER

A. The Second and Federal Circuits have issued conflicting interpretations of the CACR. The Second Circuit has twice held that § 515.527(a) is "narrow[]" and prohibits the application of legal rules (such as the "famous marks" doctrine) that would effectively convey U.S. trademark rights to a Cuban entity. Pet. 13-15. The Federal Circuit has read the same provision broadly to authorize just such a transfer—in fact, the very transfer that the Second Circuit ruled in *Empresa Cubana Del Tabaco* v. *Culbro Corp.* (*Culbro II*), 399 F.3d 462 (2005), would violate the CACR. Pet. 15.[1]

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[1] Cubatabaco also contends (at 31-32) that the Second Circuit's decision in *Culbro II* rested on an earlier version of § 515.527(a), and that the opinion addressed the current version only in dicta. That is wrong; *Culbro II* expressly stated that it was unnecessary to decide which version of the regulation was applicable because "*neither* the current version *nor* the 1992 version authorizes Cubatabaco's acquisition of the mark." 399 F.3d at 472 n.4

Cubatabaco argues (at 32) that the decisions do not conflict because the Federal Circuit addressed cancellation by the TTAB whereas *Culbro II* reviewed a *judicial* cancellation order. But the Second Circuit did not limit its ruling to judicial cancellation, and such a distinction would have no basis in § 515.527(a), which does not turn on what *entity* allows a transfer of trademark rights. The Second Circuit's broad holding that General Cigar has "the full panel of property rights in the COHIBA mark" and that the embargo does not permit the conveyance of intellectual property to Cuban entities constrains the authority of both the judiciary and the TTAB. Pet. 15-16. If *Culbro II* did not specifically address the TTAB's cancellation power, that is only because the case did not arise in that posture.[2]

B. Cubatabaco contends (at 20-23) that the 1996 OFAC letter is entitled to "utmost deference" under *United States* v. *Curtiss-Wright Export Corp.*, 299 U.S. 304 (1936). But this case does not involve the constitu-

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(emphases added). The Second and Federal Circuit's decisions cannot be distinguished on the ground that they reviewed different versions of the CACR.

[2] Cubatabaco accuses General Cigar (at 7-8) of "seriously mischaracteriz[ing]" the single sentence concerning § 515.527(a) in the Notice accompanying a 1995 amendment to that provision and "blatantly ignoring" the amendment's addition of the "related to the registration" language to the regulation's text. As to the first point, General Cigar correctly pointed out that the Notice listed a single, limited purpose for the wording change. *Compare* Pet. 18 *with* 60 Fed. Reg. 54194, 54195 (Oct. 20, 1995) ("Sections 515.527 and 515.528 are amended *to authorize transactions including payments* to the United States by Cuban nationals and payments to Cuba by U.S. companies and individuals related to the protection of intellectual property." (emphasis added)). As to the second, Cubatabaco misreads the petition. *See* Pet. 18 ("OFAC added the 'related to' language to § 515.527(a)(1) in 1995[.]").

tional scope of the President's foreign affairs power; it concerns the proper interpretation of an agency regulation. Familiar principles of judicial review and administrative law apply when a court reviews an agency's interpretation of its regulation, even when that regulation concerns foreign affairs. This Court has invoked those principles, rather than *Curtiss-Wright*, in several cases implicating the Executive's war or foreign affairs power. *E.g.*, *Ehlert* v. *United States*, 402 U.S. 99, 194 (1971); *INS* v. *Stanisic*, 395 U.S. 62, 72 (1969).

Under those settled principles, the 1996 OFAC letter is not entitled to deference. *See* Pet. 19-20. The letter bears no resemblance to OFAC documents that advise the public of OFAC's official interpretation of sanctions regulations, such as the "interpretive guidance" document explaining the scope of the general license permitting exportation of personal communications devices to Iran or OFAC's detailed (and published) letter response regarding the effect of sanctions on U.S. newspapers.[3] The letter is unpublished, and OFAC's policy is that it can "change its previously stated, non-published interpretation or opinion without first giving public notice."[4] The letter also provides no reasoning for why § 515.527(a) can be read so broadly as to authorize Cuban entities to use *any* "available le-

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[3] *See* OFAC, *Interpretive Guidance and Statement of Licensing Policy on Internet Freedom in Iran* (Mar. 20, 2012), http://www.treasury.gov/resource-center/sanctions/Programs/Documents/internet_freedom.pdf; Letter from R. Richard Newcomb, Dir., OFAC, to Redacted (July 19, 2004), http://www.treasury.gov/resource-center/sanctions/Documents/gn071904.pdf.

[4] OFAC, *Frequently Asked Questions and Answers Page 1*, http://www.treasury.gov/resource-center/faqs/Sanctions/Pages/answer.aspx#14 (last visited Feb. 9, 2015) (FAQ No. 15).

gal means to protect [their] trademarks in the United States" regardless of its connection to registration or renewal. Pet. App. 31a.[5]

C. Cubatabaco speculates (at 24-25) that if its interpretation of § 515.527(a) is overturned, OFAC *could* issue Cubatabaco a specific license authorizing the transfer of General Cigar's trademarks to it *if* Cubatabaco were to prevail in the current litigation. But there is no reason to assume OFAC *would* do so, given that Cubatabaco's application for such a license has been pending for over a decade (including after the Second Circuit rejected Cubatabaco's interpretation of § 515.527(a)). *See Empresa Cubana Del Tabaco* v. *Culbro Corp.*, 478 F. Supp. 2d 513, 517 (S.D.N.Y. 2007).

Finally, Cubatabaco attempts (at 6, 8 n.2, 25) to argue against review on the ground that the Cuban embargo has been the subject of recent regulatory changes. But § 515.527(a) has not been amended, and OFAC has cautioned the public that most of the embargo's prohibitions remain in place.[6] In light of the measured changes the Executive has proposed, it is all the more vital that this Court prevent the Federal Circuit from virtually eliminating a prohibition that has been left in place. Moreover, the embargo regulations were codi-

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[5] Cubatabaco calls the 1996 OFAC letter a "ruling" (*e.g.*, at 1), but that one-page document does not characterize itself as such. Cubatabaco has not argued the letter constitutes a specific license, *see* Pet. 14 n.6, and identifies no authority to support its suggestion (at 25) that the unpublished communication addressed to Cubatabaco's attorneys is as binding on the public as a general license published in the Federal Register.

[6] OFAC, *Frequently Asked Questions Related to Cuba* (Jan. 15, 2015), http://www.treasury.gov/resource-center/sanctions/Programs/Documents/cuba_faqs_new.pdf.

fied by legislation in 1996, Pet. 3, and cannot be fully repealed without congressional action. Whether the CACR might someday be modified or repealed by legislation is entirely speculative.[7]

II. THE FEDERAL CIRCUIT'S CATEGORICAL CLAIM PRECLUSION RULE MERITS REVIEW

A. In concluding that claim preclusion does not bar Cubatabaco's petition for cancellation, the Federal Circuit relied on its categorical rule that "claim preclusion cannot serve to bar a petition for cancellation based upon an earlier infringement proceeding." Pet. App. 15a (quoting *Jet, Inc.* v. *Sewage Aeration Sys.*, 223 F.3d 1360, 1364 (Fed. Cir. 2000)). That rule conflicts with decisions of this Court and the other courts of appeals, subverts the purpose of claim preclusion, and creates undesirable consequences for trademark law. *See* Pet. 25-28.

Cubatabaco avoids discussing all those points, arguing instead that the Federal Circuit did not apply the rule it stated to this case. That contention is meritless. The panel both quoted the rule (Pet. App. 15a) and applied it. Cubatabaco tries to convert the Federal Circuit's categorical decision into a case-specific application of the *Restatement*'s "transactional facts" approach, citing (at 35) the Federal Circuit's statement that, because Cubatabaco "need not own the mark" in a cancellation proceeding, "[t]he CACR's effect" in such a proceeding "is necessarily different" than in an infringement suit. But that statement shows that the

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[7] *See, e.g.*, Glueck & Kim, *Republicans Livid Over Cuba Talks, Call It Appeasement*, Politico (updated Dec. 18, 2014, 2:29 AM), http://www.politico.com/story/2014/12/marco-rubio-says-cuba-talks-are-absurd-113639.html.

Federal Circuit's rule *is* a categorical one; the Federal Circuit's rationale is that, because the elements of the infringement and cancellation causes of action differ, the "transactional facts" underlying those claims are *always* different, "conclusively" establishing that the claims do not arise from the same transaction for claim-preclusion purposes. Pet. 27; *Jet*, 223 F.3d at 1364.

The Federal Circuit's claim preclusion analysis departs from that of other courts (including this Court) and the *Restatement*. Claim preclusion turns on whether the two claims "aris[e] from the same transaction," *Kremer* v. *Chemical Constr. Corp.*, 456 U.S. 461, 481 n.22 (1982), and legal rules governing litigants' entitlement to relief are not part of the "transaction" from which the claims arose. *See Restatement (Second) of Judgments* § 24 cmt. c (1982).

B. Cubatabaco erroneously asserts that the Federal Circuit relied on an independent alternative ground to reject claim preclusion. Cubatabaco relies (at 35) on the court's cursory statement that the Second Circuit "never issued a final judgment on the merits of Cubatabaco's cancellation claims." But that (mistaken) statement about Cubatabaco's prior *cancellation* claims does not address the claim-preclusive effect of the Second Circuit's final judgment on Cubatabaco's *infringement* claims.

The Federal Circuit did not hold, and Cubatabaco does not now contend, that the judgment as to Cubatabaco's infringement claims was not "on the merits."[8] To

[8] "[T]he *Restatement of Judgments* has abandoned the use of the term ['on the merits'] … 'because of its possibly misleading connotations.'" *Semtek Int'l Inc.* v. *Lockheed Martin Corp.*, 531 U.S. 497, 503 (2001) (quoting *Restatement* § 19 cmt. a). Claim pre-

the contrary, the Second Circuit held that General Cigar had established its "legal right to the COHIBA mark … as against Cubatabaco," that General Cigar "owns the mark in the United States" and "ha[s] a valid registration," and that "the District Court's finding of trademark infringement is reversed." *Culbro II*, 399 F.3d at 471, 472, 479. The Second Circuit's later opinion in the same litigation expressly stated that that judgment constituted an "adjudication of the underlying trademark dispute" and was "based on a consideration of the merits." *Empresa Cubana Del Tabaco* v. *Culbro Corp.*, 541 F.3d 476, 478, 479 (2d Cir. 2008).

C. Finally, Cubatabaco contends (at 35-36) that claim preclusion should not apply for the separate reason that the cancellation remedy is available in the TTAB but not the Second Circuit. That argument—which the Federal Circuit did not embrace—-is meritless.[9] Cubatabaco relies on an exception to claim preclusion that applies when "[t]he plaintiff was unable … to seek a certain remedy [in the first action] *because of the limitations on the subject matter jurisdiction of the courts*." *Marrese* v. *American Acad. of Orthopaedic Surgeons*, 470 U.S. 373, 382 (1985) (emphasis added). But the Second Circuit did not hold that it lacked subject matter jurisdiction to grant a cancellation remedy. To the contrary, it held that Cubatabaco was not entitled to cancellation because "General Cigar's legal right to the COHIBA mark has been established as against Cubatabaco" and General Cigar "owns the mark in the

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clusion may apply "even though the substantive issues have not been tried." *Restatement* § 19 cmt. a.

[9] This Court "generally do[es] not address" alternative grounds "that were not the basis for the decision below." *Matsushita Elec. Indus. Co.* v. *Epstein*, 516 U.S. 367, 379 (1996).

United States." *Culbro II*, 399 F.3d at 479. In addition, the cancellation remedies in the TTAB and in district courts are identical. Pet. 20-21. The exception accordingly provides no basis for denying review.

The Federal Circuit's only basis for denying claim-preclusive effect to the judgment on Cubatabaco's infringement claims was its categorical rule that such judgments can *never* preclude cancellation claims. That rule is out of step with the approach employed by most federal courts and warrants this Court's review.

III. This Case Is A Good Vehicle For Reviewing The Federal Circuit's Substantial Errors

This case offers the Court a clear opportunity to review two important issues on which the courts of appeals are divided: the scope of the Cuban embargo's application to transfers of trademark rights, and the proper approach to claim preclusion, particularly in the context of trademark infringement cases. Pet. 11-12, 29.

Cubatabaco argues (at 16-17) that this Court should wait for the conclusion of this litigation before considering review. But whether final judgment has been entered in a case is only one aspect of the "wide range of concerns" this Court considers when deciding whether to accept review. 17 Wright et al., *Federal Practice and Procedure* § 4036 (3d ed. 2014). There is no basis to defer review here, where the Federal Circuit has issued definitive rulings on the legal issues presented by the petition. This Court has often granted review of non-final decisions, such as in cases like this one where the "opinion of the court below has decided an important issue … and Supreme Court intervention may serve to … finally resolve the litigation." Shapiro et al., *Supreme Court Practice* 283-285 (10th ed. 2013).

Immediate review is particularly important here because requiring General Cigar to relitigate Cubatabaco's claims undermines claim preclusion's purpose of "conserv[ing] judicial resources" and "reliev[ing] parties of the cost and vexation of multiple lawsuits." *Allen* v. *McCurry*, 449 U.S. 90, 94 (1980). Indeed, this Court has granted review of appellate decisions rejecting claim preclusion and remanding for further litigation. *E.g.*, *United States* v. *Tohono O'Odham Nation*, 131 S. Ct. 1723, 1727 (2011); *Matsushita Elec. Indus. Co.* v. *Epstein*, 516 U.S. 367, 372-373 (1996).

Cubatabaco erroneously argues (at 18) that General Cigar waived its opportunity to challenge Cubatabaco's misreading of § 515.527(a) by not raising the issue below.[10] The Federal Circuit rested its decision on its (erroneous) interpretation of § 515.527(a). *See* Pet. 19. "Any issue 'pressed or *passed upon* below' by a federal court is subject to this Court's broad discretion over the questions it chooses to take on certiorari[.]" *Verizon Commc'ns, Inc.* v. *FCC*, 535 U.S. 467, 530 (2002) (emphasis added; citation omitted). Here, the Federal Circuit squarely ruled on the issue that General Cigar presents for review.[11]

In any event, General Cigar did not waive any argument on this point. Cubatabaco, not General Cigar,

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[10] Relatedly, Cubatabaco incorrectly asserts in passing (at 14) that General Cigar does not challenge the holding that Cubatabaco has standing. That holding relied on the Federal Circuit's misreading of § 515.527(a) as providing "'affirmative authorization'" for Cubatabaco to bring suit. Pet. 10. If this Court overturns that interpretation of § 515.527(a), the standing ruling must also fall.

[11] For the same reason, the Federal Circuit's reliance on the *Jet* rule (a point not raised in Cubatabaco's briefs) places the rule's validity squarely at issue.

was the appellant in the court of appeals, seeking to reverse the TTAB's decision that it lacked standing. Cubatabaco did not rest its appellate argument on the 1996 OFAC letter's interpretation of § 515.527(a), and so there was no need for General Cigar to develop an extensive response. General Cigar was not on notice of the now-central role the letter plays in this case until Cubatabaco's reply brief and the Federal Circuit's ruling. And General Cigar did raise, before the TTAB, its argument that § 525.527(a) does not authorize cancellation of General Cigar's mark at Cubatabaco's behest. *See* TTAB Dkt. No. 5, at 7-8 (General Cigar's Motion to Dismiss); CAJA63 ¶19 (General Cigar's Amended Answer).[12]

CONCLUSION

For the forgoing reasons, and for those set forth in the petition, the petition for writ of certiorari should be granted.

[12] Cubatabaco misleadingly asserts (at 14-15, 18) that General Cigar's Federal Circuit briefing conceded that the 1996 OFAC letter's interpretation was correct. General Cigar's brief responded to three agency decisions that Cubatabaco cited (at 29-30) for the general proposition that "Cuban parties have standing in the[] circumstances" presented by this case. Those decisions each involved Cuban *opposition* to a trademark registration rather than a cancellation petition and thus could not lead to a trademark transfer. Because those decisions are easily distinguishable, whether they relied on the OFAC letter has little relevance to this proceeding.

Respectfully submitted.

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