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Toward A Substantive Private International Law of Trademarks: The Lessons of the *Carl Zeiss* Litigation

After nearly twenty years, the Carl Zeiss controversy continues to project old Cold War rivalries into courtrooms around the world. At issue in the dispute are conflicting claims of West German and East German economic organizations to be the “real” Carl Zeiss *Stiftung*, a German private foundation with a long, distinguished history in the precision optical and glass industries. Each wants invaluable Zeiss trademark rights for its trade in foreign countries. Courts of many nations have struggled with the litigation, arriving at different conclusions on the merits and distinct supporting rationales.

The defects of these past judicial approaches point to the need for a substantive private international law of trademarks. This Note, after criticizing the past opinions, will suggest the fundamental principles from which such law might be formed. An attempt will be made to describe the methods by which the principles could gain recognition as international law and to indicate possible sources of resistance to be overcome in the world legal system.

I. The History of the Carl Zeiss Affair

The Zeiss affair has an awesomely complex history. Dr. Ernst Abbe, a partner of the founder of the business, Carl Zeiss, began the Carl Zeiss *Stiftung* (Foundation) in 1889.1 Established in Jena as a private foundation and as owner of the Zeiss manufacturing firms, the Foundation was to use its profits for certain public purposes.2

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1. Carl Zeiss began manufacturing optical instruments in his workshop in Jena in the Grand Duchy of Saxe-Weimar-Eisenach in 1846. Years later he was joined by Abbe and Otto Schott. Soon after Zeiss died in 1888, Abbe became the sole owner of the Zeiss optical firm and glass works.


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enterprises were to be expanded and refined, and the welfare and security of Zeiss workers were to be improved. Surplus funds were then to be used to promote the precision technical industry, the welfare of Jena workers and general scientific study and research. For over fifty years the Zeiss organization operated under the provisions of Abbe's charter with few problems. It traded extensively within other countries and established branches throughout Germany.

In 1945, although American forces were the first to occupy Jena, the city was included in the Soviet zone of occupation. In evacuating Jena, the Americans took with them the highest Zeiss executives and created a new base of Zeiss operations at Heidenheim in West Germany. The Zeiss facilities in Jena were expropriated by the Soviet firms. A Special Board supervised the nonindustrial property of the Foundation and its noncommercial activities. This Board received and expended the profits of the Zeiss enterprises for the purposes mandated by Abbe. The Foundation was linked to the state; the Special Board was that department of government which supervised the University of Jena. The Foundation, however, was not to be managed as a state agency. The members of the boards of management of the manufacturing firms were appointed, usually for life, by the Special Board, and the latter Board was represented on the boards of management by a deputy. The boards of management conducted the day-to-day manufacturing activities. Although the charter also provided for worker representation by an elected Workers' Council, the final authority for decisions remained with these boards of management.

The other important provisions of the charter included the statement that the Foundation's legal domicile was to remain Jena and that the Foundation's works were not to be transferred to localities outside Jena's immediate neighborhood. By other provisions the Foundation was forbidden from disposing of any of the businesses which it owned or from freeing itself of the responsibility of administering them. If governmental changes made the charter's definition of the composition of the Special Board impossible, the new Board would be that department of the government which assumed supervision over the University of Jena. The Foundation was to be dissolved if it could not continue in the industry or in any other activity but that of administering its assets. Alterations in the charter could be made, but the objectives of the Foundation, its basic structure, its domicile, and the conditions requiring dissolution could not be changed.


3. Changes in the political structure of Germany did require reconstitution of the Special Board in 1918 and 1935.

4. The Zeiss officials evacuated to West Germany included all the members of the Zeiss boards of management. Before leaving Jena they designated new board members to act in their absence. The nature of this arrangement has been at the center of the dispute. The evacuees maintain that the designations were to be only temporary. They claim that their admissions in subsequent correspondence with the new board members in Jena that they had resigned, and their acceptance of powers-of-attorney to administer the Zeiss assets in West Germany, were really designed to conceal the actual Zeiss structure from the Soviets. The Jena Board members contend that the evacuees had resigned.

By decrees of the State of Baden-Wuerttemberg and by West German legislation, the domicile of the Foundation was purportedly transferred from Jena to Heidenheim. The Education Ministry of Baden-Wuerttemberg became the Special Board of the Zeiss organization in West Germany in 1954.

There was an interesting interval between the events leading to the split and the onset of litigation. Beginning in 1950, the Jena group began using the Zeiss trademarks in trade outside the Soviet bloc. Although no formal agreement was reached, a modus vivendi was maintained with the opposing Heidenheim organization until 1954, at which time the legal battle began.
authorities and then turned over to the East German state. Thus the Zeiss organization was split apart, and two organizations, reflecting the division and hostility of postwar Germany, fought for the identity and assets of the Carl Zeiss Foundation.

The issues involved in the Zeiss litigation, though resulting from this very unusual factual situation, may arise in many other contexts. The expropriation of a foreign subsidiary of a corporation by a foreign government might lead to conflicting claims to the subsidiary's trademarks by the corporation and a new government enterprise. The sale of a subsidiary to another corporation might lead to a similar dispute; the licensee of a trademark might claim full rights as owner of the trademark after many years of use in a particular market. The contention of a corporation that a well-known trademark has become a generic term and that its use should no longer be restricted would raise essentially the same legal issues as the Zeiss dispute.

II. The Quest for the True Foundation

A. The Zeiss Decisions

Most of the courts hearing the Zeiss dispute regarded their paramount task as finding the "true" Carl Zeiss Foundation. In elaborate factual studies, they sought the historical thread running from Abbe's Foundation to one of the claimants. Thus, East German and British courts, in a major step toward holding Zeiss-East to be the true Foundation, found that the evacuated members had resigned and had designated replacements. The American courts, in contrast, viewed the

The products of the claimants have been of comparable quality: "Goods made by appellees in West Germany and those made in Jena bearing Zeiss trademarks generally conformed to the standards for Zeiss products." Carl Zeiss Stiftung v. V.E.B. Carl Zeiss Jena, 433 F.2d 686, 697 (2d Cir. 1970). See also the comments in Mayer, supra note 1, at 402.

5. The Zeiss firms in East Germany became V.E.B.'s (Volks eigener Betrieb which means "enterprise owned by the people"), but the Foundation was not terminated. It continued as owner of non-manufacturing property. The state-owned firms have apparently supported the Foundation financially, and the Foundation gave them licenses to use the Zeiss trademarks. On the extent of the Foundation's activities, see Carl-Zeiss-Stiftung v. Rayner & Keeler, Ltd. (No. 2), [1966] 2 All E.R. 536, 558. See also the sources cited in note 1 supra.

6. The East German parties (the Foundation and state-owned firms) will be referred to as "Zeiss-East" and the West German claimant as "Zeiss-West."

7. The East German Supreme Court decision is reported in Sammlung der deutschen Entscheidungen zum interzonalen Privatrecht [hereinafter cited as IzRspr.], 1960-61, no. 135. The other important steps in the court's argument for Zeiss-East were that: (1) the expropriation of the Zeiss firms in East Germany had expressly preserved the Foundation, (2) the Foundation was still fulfilling the objectives of Abbe's charter, and (3) therefore the conditions for its dissolution had not arisen. The court stressed the provision in the

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resignations as an attempt to hide from the Soviets the true structure of authority persisting in the Zeiss organization, and held Zeiss-West to be the true Foundation.\(^8\)

Another critical factor in determining the true Foundation was the viability of the East German entity after the expropriation of the Zeiss facilities at Jena. The West German Supreme Court ruled that the charter that the Foundation's domicile was to remain Jena. It also viewed the expropriation as effective throughout Germany since it had been authorized by the Soviet Union in its capacity as occupying power.


For a summary of the British decisions, see note 13 infra.

8. United States District Court Judge Mansfield began by noting that the East German expropriation without compensation was against American public policy and would not be allowed to reach property, including trademarks, in American territory. Those trademarks belong to the Foundation, wherever it was to be found. He ruled out concurrent use of the trademarks by the claimants on the ground that confusion and mistakes among the consuming public had resulted from past concurrent use. Along with his holdings that there had been no resignations and that the Foundation was incapacitated in East Germany, Judge Mansfield also ruled that Zeiss-West had made a conscientious effort to comply with Abbe's charter in a new environment and that the transfer of domicile to Heidenheim was valid in terms of the appropriate German law. This last point was reached after a long, involved discussion culminating in the application of provisions of the old German Code. Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, 293 F. Supp. 892 (S.D.N.Y. 1968). Because of its length the entire opinion was not reported in the Federal Supplement. The entire text is available at 160 U.S.P.Q. 97 (1968).


Judge Mansfield's final blow to Zeiss-East's position was his application of the Trading with the Enemy Act, 50 U.S.C. App. § 5(b) (1970). He held that this legislation and a regulation under it, 8 C.F.R. § 507.46 (1972), prohibiting any transaction, transfer, or exercise by German nationals of trademarks "in or registered in" the United States on December 31, 1946, without authorization by the Attorney-General or the Director of the Office of Alien Property, barred granting the Zeiss trademark rights to Zeiss-East, which had not been authorized. 293 F. Supp. 892, 916. Judge Mansfield later rejected the defense asserted by Zeiss-East that Zeiss-West had misused the Zeiss trademarks in violation of the antitrust laws. Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, 298 F. Supp. 1309 (1969).

The Second Circuit Court of Appeals affirmed and adopted the reasoning of the district court with one important modification. The lower court had found that Zeiss-West was entitled to damages. 293 F. Supp. 892, 922. The court of appeals, finding no bad faith or fraud on the part of Zeiss-East, removed the provision for damages and granted only an injunction. 433 F.2d 686, 707. The Supreme Court denied certiorari. 403 U.S. 905 (1971).


For earlier related litigation in the United States, see Rogers v. Ercona Camera Corp., 277 F.2d 94 (1960). There, the District of Columbia Circuit Court of Appeals held that the vesting of the Zeiss trademarks in the United States Government after their wartime seizure was invalid. Hence the Attorney-General could not, as the alleged owner of the trademark rights, prohibit the use of the trademarks by Zeiss-East.
East German confiscation rendered unworkable the Foundation's charter because it had been separated from the manufacturing enterprises and the new state-owned firms had not accepted the legal obligations of the charter. The American courts also held that the Foundation in East Germany was a sham kept alive only for the purpose of possible international litigation. The courts that favored Zeiss-West held that the confiscation was against their states' public policy and could not reach Zeiss' assets, including trademarks, outside East German territory. The East German Supreme Court, however, found the Foundation still fulfilling its objectives in Jena; they argued that, since the Soviet Union had authorized the expropriation in its capacity as an occupying power, the expropriation was effective throughout Germany. The British courts held that the Foundation could continue to function in East Germany, at least to the extent of protecting its remaining property.

9. The important 1957 decision of the West German Supreme Court can be found, summarized and quoted at length in English, at 53 Am. J. Int'l L. 687 (1959). It can be found in full at IzRspr., 1954-57, no. 222. The court also held that the taking of the Zeiss firms in East Germany violated the public policy of West Germany and could only be effective within the territorial limits of the expropriating state. It seemed to think that the drastic change in circumstances justified the shift in the seat of operations to Heidenheim. Of the other decisions unfavorable to Zeiss-East, those of the French and Italian courts are the most interesting. They follow, with some variations, the West German pattern. A report of the 1966 decision by the French Cour de Cassation is at 56 Rev. Carrière Droit Int'l Prive 147 (1967). The 1956 decision of the Court of Milan is reported in [1958] Il Foro Padano 897, and the 1965 decision in [1966] Giurisprudenza Italiana, 12,322. For citations and some discussion of the Austrian, Greek, Dutch, Egyptian, and Belgian decisions, see Treves, supra note 7, an invaluable source for details of the extensive Zeiss litigation.

The decision of the Oslo Town Court in Norway, March 18, 1969, the decision of the Controller of Trade Marks in Ireland, mentioned in the Pakistani decision, [1968] All Pak. Leg. Dec. (Karachi) 276, 287, and the decision of the Registrar of Trademarks of South Africa, cited in Treves, supra note 7, at 31 n.6, were not available for this Note.


11. See notes 8 and 9 supra.

12. See note 7 supra.

13. The issue which was before the courts in England was the validity of the authorization of Zeiss-East's solicitors to bring an action on behalf of the Foundation against Zeiss-West. This preliminary issue immediately raised the question of which party was the true Foundation. The decision in the Chancery Division, Carl-Zeiss-Stiftung v. Rayner & Keeler Ltd., is reported at [1964] Rep. Pat. Cas. 299. It was reversed by the Court of Appeal, [1965] 1 All E.R. 300, on a ground not argued in the court below: the non-recognition of East Germany by the English Government. The House of Lords then reversed the Court of Appeal and affirmed the basic rulings of the Chancery Division. [1966] 2 All E.R. 536. These rulings have been followed by the High Court of Pakistan, [1968] All Pak. Leg. Dec. (Karachi) 276, and by the Joint Registrar of Trademarks of India in an unreported decision in 1968. For a discussion of these two decisions, see [1969] 3 All E.R. 897 at 913-17 (C.D.). The only lasting significance of the House of Lords' decision may be for the law of recognition. Under the doctrine of Luther v. Sagor, [1921] 1 K.B. 456, [1921] 3 K.B. 592 (C.A.), the acts and authority of the Special Board of Zeiss-East should not have been given force in the courts of the United Kingdom if it were an agency of a country (East Germany) not recognized by the English Government. The House of Lords, however,
Perhaps the most complicated legal issue in the Zeiss litigation concerned the validity of the purported transfer of the Zeiss domicile from Jena to Heidenheim. The East German judges were content with pointing to the express provision in Abbe's charter that the domicile was to remain in Jena. Judge Mansfield in the United States District Court, however, found in the old German Code a process by which the transfer could be accomplished. Other nations' courts eschewed a determination of the real Carl Zeiss Foundation and gave relief on alternative rationales. In the Australian litigation, for instance, Zeiss-West attacked Zeiss-East's use of a registered trademark on the ground that the state-owned manufacturing firm, and not the Foundation, was the actual user. The Australian court accepted this argument, finding in effect that the separation of the Foundation from the East German state-owned firm, coupled with the use of the Zeiss name by the latter, amounted to fraud with respect to the source of the goods and perhaps with respect to their quality as well. The most unconventional of the Zeiss decisions, announced by the Japanese and Swiss courts, both allowed concurrent use of the Zeiss name by the claimants. The significance of the Japanese decision was clouded by the particular circumstances of the case as it arose in Japan with the sale of Zeiss-East's trademark rights to the Nichimen Trading Company. Avoiding such ambiguity, the Swiss Federal Supreme reached the conclusion that since the East German Government was the instrumentality of the Soviets, its acts could be considered as authorized by a recognized government and thus could be handled by English courts. For an argument that earlier cases do not support the Luther v. Sagar rule and that the doctrine should be reformed, see Grieg, The Carl-Zeiss Case and the Position of an Unrecognized Government in English Law, 83 L.Q. Rev. 96 (1967). For a forceful analysis, see Comment, A Divided Country in Foreign Courts—Recent Litigation Involving Germany's Legal Status and the Zeiss Stiftung, 65 Mich. L. Rev. 924 (1967).

The holdings of the Chancery Division and of the House of Lords regarding the identity of the Foundation were severely restricted by a later ruling in the Chancery Division to the specific question of the authorization of Zeiss-East's solicitors to bring suit on behalf of the Foundation. Carl-Zeiss-Stiftung v. Rayner and Keeler, Ltd. (No. 3), 3 All E.R. 897. Thus the merits were still to be decided.

The parties, however, have settled their English litigation out of court; they have not disclosed the terms of the settlement. Bernstein, supra note 8, at 313.
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B. *The Limitations of the Zeiss Decisions*

The approaches of all the Zeiss courts severely limited the factors considered relevant. The courts that sought the "true" Foundation were oriented to the dispute's history and failed to weigh important present considerations such as the protection of consumers from improper use of trademarks and the creation of risk in investing in goodwill. The questions they stressed instead involved Abbe's original intentions and the flurry of events leading to the evacuation of the Zeiss executives to the West (e.g., whether a new leadership had been established in Jena).

As expressed in the Foundation's charter, Abbe's intentions give no clear answer as to which claimant should be favored. While stipulating the domicile of the Foundation was to remain in Jena, Abbe had also indicated that the Foundation was to be terminated if it could no longer operate the manufacturing firms. In deciding which of the claimants was the true Foundation the courts tended to emphasize one of these provisions and ignore the other.

The question of the alleged resignation of the Zeiss executives could be decided, of course, by the trier of fact. Still, resolving the dispute in this way neglected considerations of consumer and investor protection. Protecting consumers would require comparison of the claimants' products with those of the original Zeiss enterprises, regardless of the management's identity. Investor protection would require

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20. The Swiss court's analysis gave the East German Foundation a priority in time and place over the West German Foundation. It held that since the domicile of the Foundation was in East Germany, East German law would govern the transfer of the domicile. Under that law there had been no transfer and the Foundation continued in its traditional domicile. The West German claimant was a new Foundation. *Id.* at 130-31. Thus the Swiss court did not avoid completely the search for the true Foundation, but it did not make the issue dispositive. It did find that both claimants had sufficient links to the original Zeiss organization to justify their use of the Zeiss name. *Id.* at 130. The court viewed the issue of the expropriation as irrelevant to the question of present use of the trademarks. *Id.* at 131.
21. See note 2 *supra.*
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historical fact-finding only to uncover a case of trademark piracy, and none existed here.22 The historical issue of the executives' resignation was hardly determinative23 since the claimants could justifiably point to other important ties to the original Zeiss organization.24

In the absence of substantive international law governing trademark use, the only source of law available to courts was national law, applied through conflict-of-laws doctrine. Critical questions that turned on the choice of applicable law included the effects of the expropriation on the Foundation's viability in East Germany and the validity of the West German transfer of domicile from Jena to Heidenheim.25 In many instances, conflict-of-laws doctrine has been relied upon by courts to reflect certain public concerns, such as the magnitude of various legal systems' interests in the dispute. The Zeiss courts chose from among three applicable legal systems—the old German Code, West German law and East German law. Their choices seem arbitrary in the Zeiss context because none of the systems was exclusively applicable on the basis of conflict-of-laws principles.26 Exclusive application would have made sense if the interests normally reflected by such principles, e.g., the magnitude of various legal systems' interests, had pointed to the choice of one system. And, even if application of only one system had been appropriate, sole reliance on conflict-of-laws doctrine inevitably involved short-changing other interests pertaining to consumer and investor protection.

The courts that applied expropriation doctrine, holding that the East German firm would not have rights to Zeiss trademarks within their nations, similarly ignored important public interests. The general principle on which they relied—that takings of property without adequate compensation are against public policy27—had little force in the Zeiss context where no private owners were involved and where expectations of future investors would not be influenced.28 Convulsive,

22. Indeed, for a time it was apparently even possible that the two sides would reach an agreement on the use of the Zeiss name. See note 4 supra.
23. Judge Mansfield found that the testimony of one of the chief Zeiss-East officials on this issue had to be discredited. Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, 169 U.S.P.Q. 97, 111 (1968).
24. Zeiss-West was operated by the top Zeiss managers, and Zeiss-East had the Jena workers.
25. See notes 7, 8, 9 & 13 supra.
26. The three systems are entwined in the Zeiss controversy, both in time and territory. The choice of one system unrealistically imposes legal clarity on the very confused postwar situation in Germany.
27. See notes 8 & 9 supra.
28. Carl-Zeiss-Stiftung v. Rayner & Keeler, Ltd., [1964] Rep. Pat. Cas. 299, 335-36: The principal beneficiaries of the Foundation are those persons living in or about Jena who are or have been employed in the optical or glass industries and their

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postwar changes such as those involved in the Zeiss expropriation are too remote and unpredictable to receive high priority in any organization's calculus of investment risks. In cases like Zeiss, therefore, the expropriation in itself would not seem to be a decisive question in determining who should have the present use of trademarks.

Present interests were also neglected by courts that focused on conceptually "piercing the Foundation veil," rather than finding the probable impact on consumers and investors. The Australian conclusion that the public could be misled by the separation of the Foundation and the state-owned firms in East Germany seems highly improbable. The court never investigated what the Zeiss name conveyed to the public and whether the Zeiss-East product was still consistent with the information conveyed, which was the only comparison relevant to the question of consumer protection. The Japanese decision was similarly flawed by a failure to investigate the specific facts involved in the transaction between Zeiss-East and the Nichimen Trading Company. Was Nichimen merely serving as an agent for Zeiss-East goods to be traded in Japan or was Nichimen using the Zeiss trademarks on its own products? If the companies' agreement provided the latter, the main information conveyed by the trademark—the source and quality of the goods—could be very misleading. The Swiss remedy of concurrent use assumed that consumers would not be confused by similar trademarks if Zeiss-East included the differentiating term "Jena." But the Swiss court never examined closely the danger of consumer confusion or the problem of protecting investment in goodwill.

Behind their stress on the history of the dispute, at the expense of consumer and investor considerations, may have been the Zeiss courts' motivating force: national self-interest, as embodied in foreign policy and ideology. The American decisions, although not based upon direct executive comments on the Zeiss litigation, evinced a Cold War assumption that American foreign policy required aiding allies and dependents. . . . If the VEB's prosper they are likely to maintain and even increase the payments which they made towards pensions and towards the upkeep of the welfare institutions owned by the Foundation.

29. See p. 1077 supra.
30. See p. 1077 supra.
31. See p. 1078 supra.
32. Judge Mansfield pointed to the statement of the United States Attorney-General, made when the stock of Carl Zeiss, Inc. (a Zeiss-owned agency in the United States which had been seized by the United States Government during World War II) was sold to Zeiss-West in 1960, that such action was "consistent with the foreign policy interests of the United States and supports the government's policy of recognizing the Federal Republic as the only German Government which has been legitimately constituted." Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, 293 F. Supp. 892, 913 (1968).
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disadvantaging enemies, regardless of costs to other interests. The German and Japanese decisions may reflect a more commercial national self-interest. And in the Swiss case, the same interests underlying that nation's traditional foreign-policy neutrality may have been the motivation here as well.

National self-interest was hardly restrained by international trademark law. Indeed, the essence of prevailing law in this area, as in private international law generally, is deference to national or territorial policy. Such is the result of applying conflict-of-laws principles; even the Paris Convention, the most important international trademark registration treaty, incorporates the territorial principle. As a consequence of the absence of international obligations, decision-makers are unchallenged in their reliance on national self-interest. Thus, in a vacuum of substantive international trademark law, non-trademark issues and policies assume decisive importance.

33. With respect to the decrees and legislation which transferred the domicile of the Foundation to West Germany, Judge Mansfield commented:

[They] represent the acts of a friendly foreign power, diplomatically recognized by the United States, which are consistent with, and in furtherance of, our own Government's foreign policy interests.


34. The only clear exception to this generalization about national self-interest is the extraordinarily favorable attitude toward Zeiss-East of the British courts.

35. The law of trademarks rests upon the doctrine of nationality or territoriality. The United States and most other countries respect this basic premise. The scope of protection is, therefore, determined by the law of the country in which protection is sought.

36. See 2 E. REBEL, THE CONFLICT OF LAWS: A COMPARATIVE STUDY 295-300 (2d ed. 1969); 4 CALLMANN § 100.2(a)(2). The traditional conflicts rule is lex loci delicti, as in e.g., Vanity Fair Mills v. T. Eaton Co. Ltd., 234 F.2d 633 (2d Cir. 1956), cert. denied, 352 U.S. 871 (1956).

37. Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by the Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

In order to avoid repetition of the Zeiss anomalies and to protect the public interests at stake, it will be necessary to develop a substantive private international law of trademarks. With the growth of international trade and multinational corporations, disputes concerning trademarks and goodwill may be expected to burgeon. International registration treaties cannot solve all problems likely to arise in which different parties, as in the Zeiss case, claim to be the registered user. Without uniformity in substantive trademark law the global legal predictability and value of transnational trademarks will remain uncertain and the use of optimal transnational marketing methods will be frustrated.

III. Toward a Substantive International Law of Trademarks

A. Four Suggested Principles

The development of substantive trademark principles must begin with an understanding of the functions trademarks generally serve. Trademarks may be viewed as an economic asset and an instrument for communicating information. As an asset termed "goodwill," their value arises from their capacity to attract customers to the trademarked goods and affect trade patterns by evoking favorable associations. As an instrument for communication, trademarks are indicia of the origin, quality, and characteristics of goods, and possibly the broader commercial setting as well. The term "commercial setting" refers to the intangible aspects of a product, the complex of practices such as ease of obtaining repairs and replacements, the reliability and speed with which the user of the trademark conducts his business, and other factors that could be important in specialized trades. A survey of the

38. World trade increased by ninety-two percent between 1963 and 1971; the increase in world trade by developed countries was 100 percent. U.N., MONTHLY BULLETIN OF STATISTICS, vol. XXVI, Apr. 1972, Table B at xvi.
39. See note 65 infra.
40. The Paris Convention, supra note 37, and the Madrid Treaty are the most important trademark registration agreements. See Agreement of Madrid for the International Registration of Trademarks of 14 April 1891, as revised at Nice on 15 June 1957, 583 U.N.T.S. 3 (1966). The United States is a party to the Paris Convention but not to the Madrid Treaty. An important difference between the two is that the Madrid Treaty provides for one international registration of a trademark while the Paris Convention gives certain priorities to a person who has registered a trademark in one nation. A new treaty is now being negotiated which is expected to provide for a centralized registration system. Future World Trademark Law Will Greatly Simplify International Operations, 19 BUSINESS INTERNATIONAL 329-30 (1972). See also Maday, A European Perspective on the Proposed New Trademark Registration Treaty, 62 TRADEMARK REP. 353 (1972).
41. For a discussion of the functions of a trademark, categorized as "indication of origin and ownership," "guarantee function," and "advertising function," see 3 CALLMANN, supra note 35, at § 65.
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international trademark treaties and the domestic trademark law of some of the leading trading nations indicates a general consensus with respect to the most basic principles of consumer and investor protection.\(^{42}\) Though these shared expectations as to the general principles of trademark law do not amount to international law, they could be taken as a starting point for the development of such law by judges and other decision-makers resolving transnational disputes. They might be formulated as follows:

(1) The communication of information to consumers through trademarks should be facilitated, and the consuming public should be protected from false, fraudulent, and confusing communications.\(^{43}\) From the consumer's perspective, the proper use of trademarks is to convey accurate information about the goods to which they are affixed and to reach all the goods of which that information is true.

(2) Investment in goodwill must be protected. This protection would serve both the private interest of the investor who has risked capital and the public interest in encouraging investment. Without it,

\(^{42}\) In an introduction to a Model Law prepared by the International Chamber of Commerce, Stephen Ladas has described the international consensus on the basic interests to be protected by trademark law:

There is no difference in this respect between national and foreign marks, between industrial and agricultural countries, between small and big States. The USSR and Haiti have the same interests to protect and they have essentially the same objects though their laws may have differences in regulation. Manufacturers and traders build their reputation in the marketplace through trademarks. . . . The public consumer is able to buy what he wants, what his experience has taught him to expect through his familiarity with the trademark. The social interest in guaranteeing against deception and fraud is protected by ensuring the integrity of trademarks.

INTERNATIONAL CHAMBER OF COMMERCE, MODEL LAW ON TRADEMARKS, TRADE NAMES AND UNFAIR COMPETITION 6-7 (1959). The Model Law is based upon these principles. Id. at 11-23.

Article 6 quinquies of the Paris Convention grants exceptions to the normal treatment of trademark registrations if the rights of third parties would otherwise be infringed, if the trademarks do not have a “distinctive character,” or if they are contrary to morality or public order, especially if they would deceive the consuming public. BODENAUEN, supra note 37, at 113. See also art. 10 bis, id. at 142.


In specific elements and attitudes, the domestic laws of these nations undoubtedly differ. One important difference is in the requirement of actual use before registration; not all nations require actual use of a trademark before it can be registered. Sullivan, International Trademark Protection, 50 TRADEMARK REP. 877, 878 (1960). See also E. OFFNER, INTERNATIONAL TRADEMARK PROTECTION (1965).

\(^{43}\) Though the term “consumers” is used, it should be taken to refer to everyone who is a potential buyer of the trademarked product. See 3 CALLMANN, supra note 35, at §§ 81.2(b), 81.2(c).
investment of time and resources in developing goodwill will be substantially deterred.\textsuperscript{44}

In a specific case, these two principles might conflict. If a foreign subsidiary of a corporation were expropriated, the continued use of the trademark by the new government enterprise might be consistent with the principle of consumer protection but violate the principle of investor protection. Decision-makers must consider the probabilities of consumer deception and investor risk in each case. Eventually, they may develop a rule establishing a presumption in favor of one or the other; but the choice of such a rule will depend on the values they give priority, a judgment beyond the scope of the present discussion.

Detailed study of the facts of each case is necessary not only to solve apparent conflicts between these principles but to give content to them. In order to avoid the failures of the Zeiss courts, a third principle is advisable:

(3) A decision can be properly reached only after an exhaustive examination of the context of the specific controversy.\textsuperscript{45} Additional means of fact-finding may be necessary to implement this principle within courts’ present resources. In cases raising the most difficult questions of consumer psychology and economics, for example, a court might appoint an expert in the field as master to advise it on the technical issues and evidence.\textsuperscript{46}

Even with these first three principles one last principle will be necessary to constrain directly the influence of nationalism and ideology:

(4) These specific trademark principles should be preempted only by international considerations of greater importance—the promotion

\textsuperscript{44} Trademark law should also encourage further investment by those who have been wrongfully deprived of their investment in goodwill. For instance, investors who have been the victims of expropriation should be allowed, upon relocating in another country, to use their former trademark if their product would not when trademarked violate the consumer protection principle. For a case in which this was allowed, see Baglin v. Cusenier Co., 221 U.S. 580 (1911).

\textsuperscript{45} For a list of some of the factors to be considered on the issues of consumer confusion and investor protection, see The Restatement of Torts §§ 729, 731 (1938).

\textsuperscript{46} A case involving international markets poses difficult analytical and empirical problems. Nations differ in the quantity and quality of knowledge which their consumers possess. Decisions concerning investment in goodwill will undoubtedly be based upon different factors for different national markets. Indeed investment in goodwill by a corporation may be controlled by various subsidiaries or branches in different nations. Derenberg, Territorial Scope and Situs of Trademarks and Good Will, 47 Va. L. Rev. 733, 735-42 (1961).

One authority has argued that “world” marks, i.e., those having a worldwide reputation, should be given uniform protection in terms of the “main source” of the goodwill. Callmann, Thoughts on the Protection of World Marks, 44 Trademark Rep. 1191 (1954); 3 Callmann, supra note 35, at § 78.1(f).

of human rights and the avoidance of international violence.\textsuperscript{47} National decision-makers, in short, must begin to understand that they are also international decision-makers who affect the interest of the international public in many instances.

In order for international law in this area to be made, national judges must reassert their independent competence to solve legal disputes bearing on foreign-affairs issues, and renounce the trend toward complete judicial subordination to executive departments. In several important recent instances, including \textit{Zeiss}, American courts have deferred to foreign-policy considerations.\textsuperscript{48} But there are significant precedents in American law for a contrary approach. This approach, though recognizing the importance of executive policy, stresses the particular competence and obligations of judges. As a political function, the executive makes foreign policy, but litigation in transnational disputes must also consider public and private interests unrelated to a nation's foreign policy.\textsuperscript{49}

In reconciling their potentially conflicting roles as international and national decision-makers,\textsuperscript{50} judges might generally be expected to apply


\textsuperscript{48} \textit{Banco Nacional de Cuba v. Sabbatino}, 376 U.S. 398 (1964) (customary international law not to be applied to determine legality of taking of property by foreign government within its own territory if that government is in existence and is recognized by the United States Government at the time of suit even if it is alleged that the taking violates international law); \textit{Zschernig v. Miller}, 389 U.S. 429 (1968) (Oregon escheat statute an unconstitutional state intrusion into foreign affairs); \textit{First Nat'l City Bank v. Banco Nacional de Cuba}, 406 U.S. 759 (1972) (case involving act of foreign government to be decided without applying act-of-state doctrine if the Department of State so suggests) (plurality opinion of Rehnquist, J.).


\textit{The Upright} case also involved an East German government enterprise. The plaintiff sued as assignee of a trade acceptance drawn on and accepted by the defendant in payment for typewriters sold to it by the East German corporation. The defendant raised as a defense the nonrecognition of the East German Government by the United States. The court rejected the idea that nonrecognition in itself was a sufficient defense. In doing so it indicated the importance of the non-political interests:

In a time in which governments with established control over territories may be denied recognition for many reasons, it does not mean that denizens of such territories or the corporate creatures of such powers do not have the juridical capacity to trade, transfer title, or collect the price for the merchandise they sell to outsiders, even in the courts of nonrecognizing nations.

\textit{215 N.Y.S.2d 417, 422.}

\textsuperscript{50} See J G. \textit{SCHELLE, PRECIS DE DROIT DES GENS} 43, 56, 217 (1932), 2 \textit{id.} 10, 319-28, 450 (1934), for development of the idea of the double function of a national decision-maker.

\textsuperscript{1085}
international law unless the executive branch indicates that the case touches important foreign-policy interests. If the judge finds that specific and appropriate foreign-policy concerns involving human rights or the possibility of war are raised, he should fashion a decision in view of them. He should attempt to minimize, however, their detrimental effects on other international interests. The evolution of international relations into a more subtle multipolar structure has probably reduced the influence of Cold War thinking in the world's courts. There are indications that American courts may handle cases similar to Zeiss in a more objective manner. But the possibility of

51. With the Sabbatino Amendment, 22 U.S.C. § 2370(g)(2) (1970), Congress reversed the Sabbatino decision, supra note 48, and provided that United States courts are to decide claims to property allegedly expropriated by foreign governments in violation of international law unless the President has a suggestion filed to the effect that an application of the act-of-state rule is required by American foreign-policy interests. In other cases raising the act-of-state issue, United States courts will follow a State Department suggestion to decide the case on the merits. See First Nat'l City Bank v. Banco Nacional de Cuba, 406 U.S. 759 (1972); Bernstein v. N.V. Nederlandsche-Amerikaansche, 210 F.2d 375 (2d Cir. 1954). If international law is to be applied successfully, it is crucial that the judiciary retain the independence to review these executive suggestions. Jaffe clearly defined the constitutional argument for judicial independence in this area:

The role decided with the decision of litigations brought before it in a given way. It decides these conflicts by a technique which it has developed by projecting particular litigations into the entire scheme of the legal and social order. The judiciary, of course, is not alone in its concern with the legal and social order. The executive and the legislature each in its own way have like aims and purposes, but there will surely be places where one mode of procedure offers larger gains than another, and in the last analysis it is for the particular organ to decide this. If its own mechanisms seem superior, it will and should ignore the presumptive limitations.


The proper disposition is to stay the proceedings until circumstances permit an adjudication or to dismiss the action where an adjudication within a reasonable time does not seem feasible. To do otherwise would not be in accordance with the obligation of courts to decide controversies justly and in accordance with the law applicable to the case.

53. In two American decisions bearing resemblances to the Zeiss affair and rendered after Judge Mansfield's Zeiss decision, the East German parties have been successful. In D.M. & Antique Import Corp. v. Royal Saxe Corp., 311 F. Supp. 1261 (S.D.N.Y. 1970), the distributor of the goods of an East German corporation brought an action to protect its trademarks and business from defendant's interference and use of the trademarks. The Court granted summary judgment to the plaintiff, finding on the basis of affidavits that the East German corporation, which had been made a V.E.B. in 1949, was the successor in interest to Staatliche Porzellan Manufaktur, a quality porcelain manufacturer established in 1710. The defendant failed to counter this claim with any substantial evidence. This case probably does represent an instance of attempted trademark piracy in which a substantial investment in goodwill had to be protected and consumer deception avoided. The Court concerned itself solely with trademark policy. No appeal was taken.

Omega Importing Corp. v. Petri-Kine Camera Co., 451 F.2d 1190 (2d Cir. 1971), presented a situation very similar to the Zeiss controversy. The central dispute arose from the claims of a state-controlled East German enterprise and a West German corporation to the "Exakta" camera trademark. The issue of the successor in identity to the original Ihagee enterprise involved a complex set of events during World War II and immediately
nationalistic and ideological influence will persist as long as the nation-state continues to be the basic element in the world legal order.

These four principles do not constitute, of course, a complete body of trademark law. They represent only the most general and abstract principles. Even when applied contextually, they may not solve all disputes involving trademarks, especially in the general area of unfair competition. They are sufficient at a minimum for the resolution of disputes arising from conflicting transnational claims to trademark rights. As other aspects of trademark use arise in concrete disputes, additional principles may be developed as the basis of decision.

B. The Zeiss Dispute from an International Perspective

Of all the Zeiss decisions, that of the Swiss Federal Supreme Court came the closest to fulfilling the principles suggested here. It eschewed any attempt to pin the label “true Foundation” on one of the claimants. It adopted a remedy, concurrent use, which will promote communication of accurate information. Although differences may develop in the products of the contending Zeiss groups, the marks themselves will probably remain distinguishable. Moreover, each Zeiss organization will be encouraged to invest in goodwill since the chances of a “free ride” by its competitor will be reduced; hence, there will be less opportunity thereafter (including the Nazi seizure of the German plant of a Dutch partnership, the assignment of the partnership’s property, including trademarks, to a corporation formed by the partners, the East German appointment of a trustee for the property seized from the partnership by the Nazis, and the purported transfer of the domicile of the corporation created by the partners from East to West Germany). The East German enterprise’s licensed distributor sought an injunction pendente lite to restrain the defendant from distributing under the Exakta trademark cameras manufactured by a Japanese firm in Japan using lenses made in West Germany. The questions posed were whether the “balance of hardships” tipped in plaintiff’s favor and whether the issues involved were so substantial as to merit the deliberation of further litigation. Chief Judge Friendly found that the high probability of confusion might injure plaintiff’s business irreparably. He also emphasized the fact that the East German enterprise had regularly sold its goods in the United States (allegedly its American sales have exceeded $10 million), while the West German firm’s goods had not yet entered the American market. The court agreed to issue the temporary injunction. Although the court applied principles of consumer and investor protection, a cloud hangs over the decision. At the beginning of his opinion, Chief Judge Friendly remarks that the issue of the rights to the Exakta trademark in a decision on the merits

will have to be determined in light of the facts that the United States recognizes the West German Government as the de jure government over the territory it controls but does not recognize the East German Government.

This statement may mean that American foreign-policy interests could necessitate a result contrary to that which would be reached by applying trademark law. This issue was never confronted because the litigation was terminated by a worldwide settlement between the parties which allowed concurrent use of the trademarks with some differentiation to identify one as the mark of the East German company and the other as the mark of the West German company. Letter from Donald E. Nawi, Sept. 29, 1972, on file with the Yale Law Journal.

54. See pp. 1077-78 supra.
tunity for exploitation of investment. Finally, distinguishable trademarks will facilitate policing infringement.

The efficacy of the Swiss solution, however, cannot be fully evaluated without a comprehensive study of the Zeiss facts, which neither the Swiss nor any other court undertook. In the Zeiss context, the major issue for such a study would be—and should have been for the Zeiss courts—whether consumer confusion would result from concurrent use. In answering that question, as well as those pertaining to investor protection, a court considering Zeiss would have to address the following kinds of questions:

(1) Are the products of the Zeiss parties comparable in terms of their commercial settings? This question relates to possible differences in the speed and reliability with which orders are filled, ease of obtaining replacements and repairs, and other similar commercial factors. Absent this line of inquiry, no court could confidently state that consumer confusion would not result from concurrent use of the Zeiss name.

If there is considerable disparity between the parties on these points, the product of one of the claimants may be regarded as more similar to the original Zeiss product and as more appropriate for the Zeiss mark.

(2) Do differences in the governments of the German nation-states and their relationships to the Zeiss organizations result in important differences in the products of the claimants? The crucial question here is whether direct governmental control of the Zeiss facilities in East Germany constitutes a new and substantial factor in the commercial setting in contrast to the settings of the pre-war Foundation and Zeiss-West now. Unpredictable changes in Zeiss-East’s product and commercial setting, resulting from direct governmental control and political considerations, could discourage customers from maintaining long-term established relationships with the manufacturer.

(3) Has one of the parties been the sole or dominant participant in the relevant market? Goodwill in a particular market might be a remnant of the pre-war investment of the original Foundation rather than a result of effort by Zeiss-East or Zeiss-West. Similarly, if independent retailers in a particular market area have been the sole Zeiss dealers,
the sudden entry of a competing Zeiss product may mean an undesirable destruction of their investment. Thus, third parties may be seriously affected by the allocation of trademark rights.

(4) Would legally sanctioned concurrent use dilute the meaning of the Zeiss name? If it were found that the Zeiss name would lose some of its distinctiveness through concurrent use, a court would have to decide whether such dilution would be contrary to consumer welfare; a once informative signal might be reduced to a vaguer generic term.56

Functional questions of this nature should shape the resolution of disputes such as Zeiss. In order to formulate and answer such questions, decision-makers must clearly comprehend the principles to be promoted and protected.

IV. Making International Law

The development of an international trademark law could be accomplished in several ways: by judges deciding concrete cases in a common-law manner, by the worldwide adoption of a uniform or model law, or by a multilateral treaty. The challenge is not to judges or other governmental decision-makers alone. Making new international law depends also upon lawyers incorporating the international perspective into their arguments and upon scholars constructively criticizing the resulting decisions.

Judges around the world could develop substantive international law by applying and interpreting trademark principles such as those suggested earlier in specific disputes. Given the hold of territoriality on private international law, this means of making international law may well be unfeasible at this point in history. In the trademark area, for instance, domestic legislation presently occupies the field and authorization from national legislatures would be necessary for national courts to apply substantive international law.58 Under present conflict-of-laws doctrine, courts apply choice-of-law rules to determine what law should govern cases touching foreign legal systems.59 Reform

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57. See note 35 supra.
59. See note 36 supra.
of this doctrine is vital to achieve uniformity in law applied to all transnational transactions—law involving not merely trademarks but a broad range of issues. An improved choice-of-law rule would require transactions with a sufficiently transnational character to be governed by substantive international law.\textsuperscript{60} Underlying this change in doctrine would be the congruence of the courts' responsibility and power—their responsibility to decide transnational cases in terms of international interests, and their present power to affect international interests through their decisions. The new doctrine, whether initiated by courts or legislatures, could spur judges toward developing substantive trademark law.

A uniform law as the means of developing new substantive law would provide explicit, authoritative standards for the world's decision-makers.\textsuperscript{61} But it would have to be adopted through the normal national processes with the possibility of national modifications and delay. Also, unfortunately, it could be viewed as national rather than international law.

A self-executing multilateral treaty thus seems to represent the best means of achieving an international law of trademarks.\textsuperscript{62} Nations seem content to focus on registration and avoid substantive principles; many may be reluctant to move toward supranational legal standards. As international commercial interaction increases, however, the need for uniformity will become a more compelling incentive. The public interests protected by international trademark law are identical with the

\textsuperscript{60} In the world community which now represents the target of so much conscious effort, the foreign elements of which municipal legal systems must take cognizance in order to avoid injustice and give effect to vested rights and reasonable expectations will not necessarily continue to be governed by other systems of municipal law. Conflicts of law will remain inevitable and important as they are today in organised federal systems, but an increasing number and proportion of legal transactions will be removed from the domain of conflict to that of common international rules.


\textsuperscript{61} A model law for trademarks has been prepared by the International Chamber of Commerce; see note 42 \textit{supra}. On the use of uniform laws, see Amram, \textit{Uniform Legislation as an Effective Alternative to the Treaty Technique}, 54 Am. Soc'y Int'l L. Proc. 62 (1960); Darby, \textit{The Conflict of Laws and International Trade}, A San Diego L. Rev. 45, 62-70 (1967); Rogers & Ladas, \textit{Proposals for Uniform Trade-Mark Laws}, 49 Trademark Rep. 8, 9 (1950).


\textsuperscript{62} National modifications could still occur if the treaty were not held to be self-executing. In Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 640 (1956), the Paris Convention was held to be self-executing. \textit{But see} H. Steiner & D. Vagts, \textit{Transnational Legal Problems} 883-84 (1968).

For a proposal of a new treaty for the American hemisphere, see Rogers & Ladas, \textit{supra} note 61.
interests of each nation's citizens. No nation can adequately protect those interests in the absence of a formally established set of principles; hence, general adherence to such principles must be in every nation's long run self-interest.

Conclusions

Examining the Zeiss litigation, one authority has suggested that the international legal system, beset by ideology and extremely difficult questions of fact and law, cannot handle such cases without "disproportionately high social costs." His preferred alternative is the extra-judicial settlement of disputes by the parties involved. This solution, however, would result in decision-makers abdicating responsibility in areas vitally affecting the public. Private settlements could easily result in consumer deception or confusion; they could also deter investment in goodwill, as potential investors shun the risk of protecting their interests solely through bargaining power. The possible costs of faulty consumer information and lost investment in goodwill must be weighed against whatever savings could be anticipated from less complex and extended litigation.

The only lasting solution would seem to be development of substantive international law. The obstacles are formidable: Nations must be convinced that their interests are better served by international agreement than by anarchic conflict. But the shared interests in trademark law may be more substantial and numerous than those in other areas, and agreement on new international law and institutions, therefore, may be more feasible. The rise and spread of multinational corporations, combined with the expansion of international trade, makes the need for such law more urgent.

64. Id. at 313.
65. World trade is pre-eminently a matter of international concern; the inexorable corollary is that traders must comply with and contribute to the realization of international standards. The enormous power of global corporations is of great political consequence and must be subjected to commensurate supervision and direction. Reisman, Polaroid Power: Taxing Business for Human Rights, 4 FOREIGN POLICY 101, 109 (1971). See also The Multinational Corporation and World Economic Development, 66 AM. SOC'Y INT'L. L. PROC. 1, 10 (1972).