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PRIVATE INTERNATIONAL LAW--CORPORATIONS--WEST GERMAN LAW HELD TO DETERMINE SUCCESSOR TO ORIGINAL FOUNDATION WHICH HAD BEEN LOCATED IN EAST GERMANY

Plaintiff, a West German foundation,[1] sued to enjoin infringement of United States trademarks by defendant, an East German "peoples-owned enterprise."[2] The original Carl Zeiss Stiftung[3] was created at Jena in 1889 with the required approval of the Duchy of Saxe-Weimar-Eisenach for the purpose of owning and operating an optical business for profit.[4] In 1945, before Jena became part of the Soviet Zone, United States military authorities evacuated all members of the Zeiss Board of Management, as well as key personnel, to Heidenheim, Wuerttemberg, in the United States zone.[5] In 1948, the Soviet Union expropriated all Zeiss assets in Jena, including its trademarks. The Zeiss commercial enterprise at Jena was reorganized in 1951 and became VEB Carl Zeiss, Jena, responsible solely to the East German government. Following the Soviet expropriation,

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1. Under the German Civil Code a Stiftung (foundation) is used "exclusively for incorporated organizations owning property which is devoted to a purpose which has been defined in the statutes to the Stiftung." A board of management conducts the business according to the directives of the governing statute. 1 E. COHN, MANUAL OF GERMAN LAW (1968).

2. V.E.B., as in V.E.B. Carl Zeiss Jena, is an abbreviation of Volks-Einsitzung-Bearbeitung or "people's owned enterprise."

3. The original Carl Zeiss Stiftung registered the trademark "Carl Zeiss Jena" in the distinctive lens frame in 1907. "Zeiss" alone was registered in 1912, followed by "CZ" in 1913, and the distinctive lens frame alone in 1914. Zeiss Ikon A.G., a subsidiary of plaintiff Carl Zeiss Stiftung, joined as a plaintiff to enforce the trademark "Zeiss Ikon."

4. In 1896 the governing "statute" of Carl Zeiss Stiftung was approved. It was last amended in 1941. The statute provided that Carl Zeiss Stiftung was established as a private foundation at Jena to own and operate an optical business for profit.

5. The Zeiss Board named three employees to remain at Jena and to act during the Board's absence until such time as the Board would resume management at Jena.

the Board of Management obtained a decree from the Minister of State in Wuerttemberg to amend the foundation's statute to create a new domicile in Heidenheim for Carl Zeiss Stiftung.[6] In 1967, the Wuerttemberg decrees were affirmed by an Act of the German Parliament.

Title to Zeiss trademarks purportedly had been vested in the Alien Property Custodian of the United States in 1919. Zeiss business in the United States was carried on through Carl Zeiss, Inc., a New York corporation organized in 1925. The capital stock of Carl Zeiss Inc. vested in the Alien Property Custodian in 1942.[7] Beginning in 1950, East German products bearing Zeiss trademarks were sold in the United States through the Ercona Camera Corp. Ercona later obtained

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6. From 1949 until 1954 Carl Zeiss Stiftung, and what became VEB Carl Zeiss Jena, had an informal licensing arrangement for the use of the "Zeiss" trademarks. Carl Zeiss Stiftung claimed at all times that it was entitled to the trademarks, but offered to come to an agreement with the East German firm for their use. The offer was tacitly accepted by the East German Government as a "modus vivendi." The agreement continued until 1954 when it broke down in a dispute over licensing terms. Parallel litigation followed in East and West German courts. In 1954 district courts in Goettingen and Duesseldorf enjoined VEB Carl Zeiss Jena from selling its products carrying "Zeiss" trademarks in West Germany. The Federal Supreme Court upheld this position in 1957, declaring that the board members in Heidenheim represented the original Stiftung as proprietor of the Zeiss firm. A district court in Stuttgart dismissed an action brought by representatives of Zeiss Jena in 1954 on the grounds that Zeiss Jena was not a legal representative of the original Carl Zeiss Stiftung and thus had no authority to bring the action. The Federal Supreme Court upheld this decision in 1960. In a 1954 advisory opinion the Supreme Court of East Germany annulled the 1949 Wuerttemberg decree moving the domicile of Zeiss Stiftung to Heidenheim. Zeiss Jena obtained a default judgement against Zeiss Stiftung in the district court of Leipsig which was upheld by the Supreme Court of East Germany. Carl Zeiss Stiftung was not represented in any of the East German actions.

7. Trading With the Enemy Act of 1917, 50 U.S.C. App. § 1 et seq. (1965).

a declaratory judgment against the Attorney General of the United States, successor to the Alien Property Custodian, enjoining him from putting an embargo on the importation of East German goods carrying the "Zeiss" trademark.[8] Following that judgment, the Attorney General sold the stock of Carl Zeiss, Inc. to plaintiff Carl Zeiss Stiftung. At that time, the Attorney General expressed the view of the United States Government that only Carl Zeiss Stiftung of West Germany should be recognized as the legitimate successor to the original Carl Zeiss Stiftung. In the instant case, plaintiff contends that under German law it is legally identifiable with the foundation created at Jena in 1889 and therefore has the rights to the exclusive use of all Carl Zeiss trademarks located in the United States. Defendant contends that the foundation organized at Jena never ceased to exist in Jena and therefore the "peoples-owned enterprise" is entitled to either exclusive or concurrent use of Zeiss trademarks in the United States. The District Court held that defendant was barred from asserting any claims to United States trademarks under the Trading with the Enemy Act,[9] and, in view of plaintiff's good faith effort to carry out the purposes of the original foundation, plaintiff was the legal successor to the original Carl Zeiss Stiftung.[10] On appeal to the United States Court of Appeals for the Second Circuit, held, affirmed.[11] Since

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8. The Court of Appeals for the District of Columbia held that since ownership of trademark rights exist only as appurtenant to some manufacturing or marketing business conducted in the United States and since the Alien Property Custodian made no effort to market Zeiss products, the 1919 seizure of Zeiss trademarks had no substance. The court did not adjudicate the relative rights of VEB Carl Zeiss Jena (Ercona) and Carl Zeiss Stiftung in the U.S. trademarks. Rogers v. Ercona Camera Corp., 277 F.2d 94 (D.C. Cir. 1960).

9. 50 U.S.C. App. § 1 et seq. (1965). The court held that under the act even if the vesting of title to U.S. trademarks in the Attorney General was ineffective, Zeiss Jena could not exercise any rights in these trademarks without approval from the Attorney General. See 8 C.F.R. § 507.46 (1970).

10. Carl Zeiss Stiftung v. V.E.B. Carl Zeiss Jena, 293 F. Supp. 892 (S.D.N.Y. 1968).

11. Carl Zeiss Stiftung v. V.E.B. Carl Zeiss Jena, 433 F.2d 686 (2d Cir. 1970).

German law as interpreted by the courts of West Germany provided means for a foundation to change its domicile when the purposes for which it was created would be otherwise frustrated and since the United States does not recognize extraterritorial expropriation of property located in the United States, the successor foundation, Carl Zeiss Stiftung, has exclusive rights to Zeiss trademarks in the United States.[12] Carl Zeiss Stiftung v. VEB Carl Zeiss Jena, 433 F.2d 686 (2d Cir. 1970).[13]

Trademarks registered in the United States for products manufactured elsewhere are considered property located in the United States.[14] Based on a policy of judicial restraint, United States courts will not inquire into the validity of acts of a foreign state with respect to property and

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12. In addition, the Second Circuit overruled the defenses of laches, acquiescence or abandonment, joint or concurrent use of trademarks. It upheld the district court's rejection of defendant's anti-trust defense under the Lanham Act, 15 U.S.C.A. § 1115 (1963), which the district court reported in a separate opinion. Carl Zeiss Stiftung v. VEB Carl Zeiss Jena, 298 F. Supp. 1309 (S.D.N.Y. 1969). The court found, however, that the district court's award of damages to plaintiff was not justified under the Lanham Act.

13. The events out of which this suit arose have sparked litigation throughout the world. See Carl-Zeiss-Stiftung v. Rayner & Keeler, Ltd. (1964) R.P.C. 299, aff'd [1966] 2 All E.R. 536; Carl-Zeiss-Stiftung v. Rayner & Keeler, Ltd., [1969] 3 All E.R. 897; V.E.B. Carl Zeiss, Jena v. Firma Carl Zeiss Heidenheim, [1965] Entscheidungen des Schweizerischen Bundesgerichts 117 (Swiss Federal Supreme Court); Carl-Zeiss-Stiftung of Heidenheim v. Carl Zeiss Stiftung, Jena, PLD 1968 Karachi 276 (High Court of West Pakistan); Jenaer Glaswerk Schott & Gen., Mainz v. V.E.B. Jenaer Glaswerk Schott & Gen., Jena, Oslo Town Court (Norway), March 18, 1969); Carl Zeiss Stiftung, Heidenheim v. Carl Zeiss Stiftung, Jena, not reported (Indian Joint Registrar of Trademarks), March 12, 1968; Re Carl Zeiss Pty. Ltd.'s Application, [1969] 43 ALJR 196 (Australia).

14. Zwack v. Kraus Bros., 237 F.2d 255 (2d Cir. 1956). See Baglin v. Cusnier Co., 221 U.S. 580 (1911). In Baglin, Carthusian monks sued to enforce their trademark "Chartreuse"

interests situated within the alien's own territory. This policy extends even to unrecognized governments acting within the scope of their own control.[15] Recently, this policy, known as the act of state doctrine, has been expanded by statute to allow courts to inquire into the validity of a confiscation of property by a foreign state when the confiscation is in violation of principles of international law.[16] This conforms to the general view of the United States Government that expropriations are "contrary to our public policy and shocking to our sense of justice."[17] However, where a foreign state's act purports to affect property located outside its own territory, a court is not restrained from determining whether the act was done in accordance with the applicable law.[18] Where property expropriated by a foreign state is located within the United States at the time of the attempted expropriation, courts will give effect to the acts of the foreign state only when the acts are "consistent with the policy and law of the United States."[19]

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against a French corporation. For centuries the monks had produced Chartreuse in France, but when they failed to qualify as an association under French law, they took their secret formula to Spain where they continued its production. Their equipment and assets in France were liquidated by the French government and sold to a private concern which manufactured a liqueur under the "Chartreuse" label. The Supreme Court held that despite the order's removal from France to Spain and despite the liquidation of its assets by the French government, the order retained its exclusive use of the "Chartreuse" trademark in the United States.

15. Underhill v. Hernandez, 168 U.S. 250 (1897).

16. 22 U.S.C.A. § 2370 (Supp. 1971). This statute was a reaction to the Supreme Court's decision in Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398 (1964). The Court held that United States courts would not inquire into the validity of acts of a foreign state even if they clearly violated international law.

17. Iraq v. First National City Bank, 353 F.2d 47, 51 (2d Cir. 1965).

18. RESTATEMENT SECOND, FOREIGN RELATIONS LAW OF THE UNITED STATES § 43 (1965).

19. Iraq v. First National City Bank, 353 F.2d 47 (2d Cir. 1965); RESTATEMENT SECOND, FOREIGN RELATIONS LAW OF THE UNITED STATES § 46 (1965).

For purposes of determining which law governs a corporation, courts have looked to the state of its origin.[20] An entity such as a corporation or foundation is the creature of the jurisdiction which creates it.[21] Under the German Civil Code, adopted in 1900, an existing foundation was made subject to federal authority rather than to the authority of the state or principality in which it was created. Section 87 of the Civil Code provided that where a foundation's purposes could no longer be fulfilled, the foundation's statute could be amended by the appropriate authority.[22] Settled court practice in West Germany, following the Civil Code, permits foundations and corporations to transfer their domicile from East Germany even if, under the Civil Code as interpreted by East Germany, the corporation was prohibited from transferring domicile or ceased to exist.[23] Although the United States does not recognize the East German Government, the United States is not prevented from recognizing East German law as the law of a de facto government.[24] Acts of unrecognized governments relating to local affairs usually will be given effect.[25] In determining which law to apply, however, United States foreign policy objectives must be considered.[26] A key element of this policy is that the United States Government recognizes West Germany as the only legitimate German government.[27]

In the instant case, the Second Circuit noted that the parties were in accord on the application of the 1900 German Civil Code to determine the successor to the original Carl Zeiss Stiftung.[28] Consequently, the issue with which the court was faced was whether the German Civil Code as

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20. Barcelona Traction, Light & Power Co. Case, [1970] I.C.J. 3, 9 INT'L LEGAL MATERIALS 227 (1970).
21. Bank of Augusta v. Earle, 38 U.S. 519 (1839).
22. See Carl Zeiss Stiftung v. V.E.B. Carl Zeiss Jena, 293 F. Supp. 892 (S.D.N.Y. 1968).
23. E. RABEL, THE CONFLICT OF LAWS: A COMPARATIVE STUDY 54 (2d ed. 1960).
24. RESTATEMENT SECOND, FOREIGN RELATIONS LAW OF THE UNITED STATES § 113 (1965).
25. Id.
26. The Maret, 145 F.2d 431 (3d Cir. 1944).
27. 23 DEPT. STATE BULL. 530 (1950).
28. 433 F.2d 686, at 698.

interpreted by the East Germans or by the West Germans should be applied. The court held that this determination depended on the nature of the issue. Although the law of an unrecognized government may be given effect in local matters, the court said that the East German decisions concerning the legitimate successor foundation purported to reach beyond East German jurisdiction, and thus were void. Furthermore, since the Soviet expropriation decrees were directed toward property outside Soviet jurisdiction, the court held them ineffective as acts of state. The Wuerttemberg decrees and the 1967 act of the West German Parliament, acknowledging Carl Zeiss Stiftung's shift in domicile from Jena to Heidenheim, were not effective acts of state insofar as they attempted to change the status of Zeiss assets outside West Germany. However, they were effective to the extent that they gave legal status to the foundation's de facto existence in West Germany as a continuation of the original foundation. Since the purpose for which Carl Zeiss Stiftung was created could not be carried out in Jena due to the Soviet expropriations, the court found the West German application of the Civil Code valid to transfer domicile. In addition, the court noted the official United States view as promulgated by the Attorney General, which recognizes Carl Zeiss Stiftung as the legitimate successor to the original. The Second Circuit, therefore, held that without permission from the Attorney General, VEB Carl Zeiss Jena was barred from asserting any claims to United States trademarks under the Trading With the Enemy Act.[29] In so ruling, the court found the West German foundation to be the legitimate successor to the original Carl Zeiss Stiftung and therefore entitled to the exclusive use of registered Zeiss trademarks in the United States.

In view of United States foreign policy the findings in the instant case should be no surprise. Given an East German and a West German claimant, each of whom was supported by meritorious arguments, and, additionally, given a valuable United States asset to be allocated between them, the decision was predictable. If, on the other hand, the court had in fact recognized the legitimacy of the East German government to act within its own jurisdiction, there would have existed a

29. Id. at 703; 50 U.S.C. App. § 1 et seq. (1965).

valid Zeiss enterprise within East Germany which held claims to rights outside East Germany, i.e. United States trademarks. This is the same process of reasoning the court used to find that the Wuerttemberg decrees gave rise to the de facto existence of a Zeiss enterprise in West Germany holding claims to rights outside West Germany. The court here seems to have adopted the premise of the district court: that VEB Carl Zeiss Jena "is but a sham and subterfuge, erected solely for the purpose of litigation outside of East Germany. . . ."[30] Ultimately, then, this case is grounded not only in a protective policy towards West Germany but also in a more general policy disapproving uncompensated expropriations. Had the court recognized the "peoples-owned enterprise" as a successor of Carl Zeiss Stiftung under East German law, it would have given legal recognition to an uncompensated expropriation. Therefore, although the court said it would accept the validity of East Germany's acts within its own jurisdiction, it failed to do so. The court balanced the policy underlying the act of state doctrine against the policy underlying disapproval of uncompensated expropriations, and found the latter to weigh more heavily.

The result of the present case may be to create additional problems in trade between the United States and presently unrecognized governments. Where two opposing claimants exist to property located in the United States, one of the claimants asserting rights under the law of the recognized government and the other asserting rights under the law of the unrecognized government, a United States court might use a double standard to determine the applicable choice of law. In theory, the application of the act of state doctrine would be identical to determine the status of claims within each state's own jurisdiction. However, given the principle of comity between nations, a court may give greater consideration to the law of a recognized nation,[31] thereby disadvantaging the corporation from the unrecognized state. Nonetheless, the instant case stands for the principle that United States courts will give effect to United States foreign policy whenever appropriate. Using this standard the Second Circuit clearly reached the correct decision.

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30. 293 F. Supp. 892, 897.
31. Hilton v. Guyot, 159 U.S. 113 (1895).