

# Caveat disinvestor

— O H Dean, attorney, Spoor and Fisher, Pretoria —

On 19 November 1986 Eastman Kodak Company of Rochester, New York, the proprietors of inter alia the trade mark KODAK, issued the following press release:

"Eastman Kodak Company today announced plans to withdraw from South Africa.

"Under terms of the withdrawal, no Kodak unit anywhere in the world will be permitted to supply products to South Africa and the assets of Kodak South Africa will be sold.

"Employees will be terminated with a generous separation package.

"Kodak chairman and chief executive officer Colby H Chandler said the decision to withdraw came only after long and careful consideration.

"The economics of the situation are a major factor in our decision to withdraw," Chandler said. "Our South African business has been affected negatively by weakness in the South African economy and we have no doubt that the system of apartheid has played a major role in the economy's underperformance."

"We had hoped that by now the signs in South Africa concerning plans to dismantle statutory apartheid would be clear. Unfortunately, we cannot see with any certainty a time when South Africa will be free from apartheid. The implication of that situation is a degree of business risk which we do not consider prudent and thus, we have concluded with reluctance that Kodak should withdraw from that troubled country."

"Shipment of products by Kodak to South Africa will cease no later than 30 April 1987."

In taking this step Eastman Kodak followed the example of a number of other multinational companies and disinvested from South Africa. However, unlike other multinational corporations which disinvested from South Africa, such as IBM and General Motors, Eastman Kodak did not leave quietly but made their departure to the accompaniment of a fanfare in the glare of publicity. No doubt Eastman Kodak had reasons for adopting this approach.

Prior to November 1986 Eastman Kodak had had a significant presence in South Africa. Their cameras, films and other photographic equipment had for a number of years been extensively sold and advertised in South Africa. KODAK film processing businesses were widely scattered throughout South Africa.

Eastman Kodak's wholly-owned South African subsidiary, Kodak (South Africa) (Pty) Limited, had for approximately seventy-five years marketed and distributed Eastman Kodak's products and services in South Africa. KODAK products were amongst the market leaders in their fields in South Africa. Eastman Kodak's disinvestment did not stop at

withdrawing its presence from South Africa and no longer supplying its goods to South African customers; they went further and made efforts not to supply their goods to third parties who would ship them onwards to South Africa. Eastman Kodak in fact sought actively to prevent KODAK goods from being sold in South Africa and thus the trade mark KODAK from being used in South Africa and publicly proclaimed their intentions in this regard. The departure of this "Goliath" of the photographic field from South Africa did not, however, go uncommemorated because "David" - in the form of a close corporation named Image Enterprises CC - unleashed a slingshot at the retreating "Goliath". The effect of this slingshot is yet to be determined and herein lies a story.

Eastman Kodak's withdrawal from South Africa was a planned event. The assets of Kodak South Africa were sold off; that company's employees were given generous separation packages and supplies of products ceased on a given date. However, what account, if any, did the persons who masterminded the withdrawal take of the numerous South African registered trade marks, including the trade mark KODAK in a wide variety of classes covering virtually all goods and services of any relevance to the photographic field, which remained behind?



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Image Enterprises CC is a small corporate entity which has as its purpose the conducting of business in the photographic and allied fields. Image Enterprises perceived Eastman Kodak's withdrawal from South Africa together with its positive attempts to prevent third parties from supplying KODAK goods to South Africa (that is, by means of the so-called "grey market") as an abandonment by Eastman Kodak of its South African registered trade marks and in particular the various registrations of the trade mark KODAK.

Image Enterprises commenced litigation against Eastman Kodak before the Transvaal Provincial Division of the Supreme Court contending that, by virtue of their abandonment of their KODAK trade marks in South Africa; first the trade marks became *res nullius* and thus eligible for acquisition by another according to the Roman-law principle of *occupatio* (vesting of ownership by acquiring possession together with the intention of exerting rights of ownership); secondly, and alternatively, the marks were entries wrongly remaining on the register and liable to cancellation. At the same time, Image Enterprises made application to register in its own name the trade mark KODAK (and various other marks registered in the name of Eastman Kodak) in respect of photographic equipment.

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The case was heard in August 1988. The question of the "abandonment" of the trade mark KODAK in South Africa was the central issue. In the papers before the court, Image Enterprises contended the following: Eastman Kodak's attitude and policy reflected in the press statement issued by it is effectively that it is too great a business risk for it to trade in South Africa under the KODAK trade marks while the system of apartheid prevails and that it cannot see with any certainty a time when South Africa will be free from apartheid. In short, Eastman Kodak said that it would not resume trading in South Africa under the trade mark KODAK unless and until apartheid is dismantled and it is not clear when, if ever, this will happen. In effect Eastman Kodak has manifested an intention to discontinue trading under the trade mark KODAK in South Africa indefinitely. When the proprietor of a trade mark ceases to trade and to have any intention of trading in the goods for which the trade mark is registered in South Africa, that entails abandonment of the trade mark. The question of abandonment is essentially one of the intention of the trade mark proprietor and that intention must be established by considering all the circumstances and the facts of the matter. The crucial issue is whether the trade mark proprietor holds the intention to conduct business in South Africa under the trade mark in the future. Once use of a trade mark has ceased and the owner

does not propose to resume it, the mark no longer constitutes a "trade mark" as defined in the Trade Marks Act (as it is no longer a mark "used or proposed to be used" in South Africa) and must be deemed to have been abandoned.

Eastman Kodak countered Image Enterprises' case as follows: sales of KODAK products in South Africa by Kodak South Africa ceased on 30 June 1987. KODAK products purchased from Kodak South Africa by retailers were likely to be offered to the public for many months to come. Grey market KODAK goods were likely to continue reaching South Africa and to be sold in South Africa despite Eastman Kodak's attempts to prevent such source of supplies.

Accordingly, at the relevant date for purposes of the court proceedings, use of the trade mark KODAK in South Africa had not ceased. Eastman Kodak intends to keep its trade mark registrations in force in South Africa and, therefore, they could not be said to have abandoned such trade marks. Moreover, they had never stated that they would never return to South Africa.

Image Enterprises' reply to Eastman Kodak's contentions was as follows: the question at issue is not whether Eastman Kodak intends to allow its trade mark registrations to remain on the register in South Africa but whether it intends to use the trade mark KODAK in South Africa. The mere intention on the part of a trade mark proprietor to allow a trade mark to remain on the register and thus keep it alive, while having no intention to use the mark in relation to the relevant goods in the future, is not sufficient to nullify an inference drawn from all the circumstances of a case that a trade mark has in effect been abandoned. Eastman Kodak did not withdraw from South Africa because of business or economic reasons but for political reasons. Business considerations would not have caused Eastman Kodak to go to the lengths to which it had gone to prevent third parties from supplying KODAK goods to the South African market, that is, actively preventing goods from reaching South Africa even indirectly. The evidence placed before the court established that Eastman Kodak had discontinued trading under the trade mark KODAK in South Africa at the relevant date and no longer has the intention of doing so for the present and indefinitely into the future. There was no evidence before the court of continued sales of goods under the trade mark KODAK in South Africa at the critical date for the litigation, whether of goods emanating from Kodak South Africa or grey market goods. Furthermore, as far as grey market goods are concerned, sales of KODAK goods made contrary to the avowed intention and instructions of Eastman Kodak was not use of such a nature as to negative abandonment of the trade mark, nor was it the type of bona fide use contemplated by the Trade Marks Act.

During the course of the hearing of the matter, Image Enterprises relinquished the relief of having itself substituted as the registered proprietor of the various KODAK registrations, on the premise that they had acquired them by the common-law principle of *occupatio* and the case was thus ultimately pursued on the basis that the relief being sought was cancellation of the various KODAK registrations. Although the South African



Trade Marks Act does not make specific provision for cancellation of a registered trade mark on the grounds of abandonment; the Act makes provision for a mark to be cancelled on the grounds of non-use if a continuous period of five years elapses during which the mark is a registered mark and no bona fide use of it is made by the proprietor or a registered user; it was common cause between the parties that the KODAK marks would be liable in principle to cancellation if abandonment could be established.

MacArthur J, in giving judgment (*Image Enterprises CC v Eastman Kodak Company and others* 1989 (1) SA 479 (T)) held that it had not been established that Eastman Kodak had in fact abandoned the trade mark KODAK in South Africa and that, in any event, Image Enterprises did not qualify as a so-called "person aggrieved" by the presence of the KODAK marks on the register and, therefore, did not have *locus standi* to seek their cancellation. The judge motivated his decision that Eastman Kodak (that is, the first respondent) had not abandoned the trade mark KODAK as follows (485A):

"In the light of the first respondent's declared intention not to abandon permanently these marks or/and other rights in South Africa I would be loathe on the evidence before me to come to a contrary conclusion. There is for example no evidence that Kodak (South Africa) (Pty) Limited has been removed from the register of companies. I do not think abandonment of marks can be presumed even on the assumption that they are not being used. There must be other factors involved before such a conclusion can be arrived at as for example the liquidation of the company which owns the marks or a declared intention not to resume use. In its ordinary meaning the word abandon means to give up something absolutely and once such a decision is taken it is final and irrevocable. The facts in this case do not support such a conclusion. In addition I am not satisfied that the evidence clearly establishes that the KODAK trade marks are not being used in South Africa at this present time. It will be recalled that the announcement by the executive of the first respondent was to the effect that supplies to South Africa would cease after 30 April 1987. Supplies which reach this country before that date were on the probabilities still available to the public after 30 April 1987. There is no evidence to show that those supplies are now exhausted and that there are no more Kodak supplies available in this country to the public at the present time. In my view the absence of evidence in regard to the manner of trading today means that the applicant has not established that the marks are not being used now. It follows that the intention to abandon the marks cannot be presumed."

Having found that Image Enterprises had not established that Eastman Kodak had the intention of abandoning the trade mark KODAK, the judge then concluded that on that account Image Enterprises could not be considered to be a "person aggrieved" and to have *locus standi* to bring the application for cancellation of the KODAK marks. Image Enterprises sought, and was granted, leave to appeal against this judgment. The application for leave to appeal was heard by MacArthur J and in granting leave to appeal, he said (*Image Enterprises CC v Eastman Kodak Company and others* - (judgment in the application for leave to appeal)

12-10-1989 (unreported)):

"A number of grounds have now been advanced by the applicant in seeking leave to appeal and they are fully set out in the notice of appeal which runs to many pages. Having heard argument, I am satisfied that another court may come to a different conclusion to the one I arrived at."

Image Enterprises has appealed to the appellate division and it is likely that the appeal will be heard towards the end of 1989 or in 1990. Until that time, although the court of first instance found in Eastman Kodak's favour, the KODAK trade marks will remain in jeopardy.

The Registrar of Trade Marks, in his capacity as the custodian of the register of trade marks, is a co-respondent in the matter.

Amongst the relief being sought from the court by Image Enterprises is an order directing the registrar to remove the relevant KODAK trade marks from the register. In the event that the Appellate Division upholds Image Enterprises' appeal and grants such an order, the matter will then pass beyond the control of the parties because no settlement subsequent to a judgment of the Appellate Division entered into between the parties can affect an order directing the registrar to expunge the trade marks. Eastman Kodak thus face the prospect that the Appellate Division may cancel all the registrations of its trade mark KODAK and any such decision will be irrevocable or irretrievable notwithstanding any accommodation which the parties may try to reach. For the Appellate Division to reach such a decision it will have found that Eastman Kodak has abandoned its trade mark KODAK in South Africa because it is not using it and has no intention of using it in South Africa. In this situation Eastman Kodak will not qualify to apply for registration of fresh KODAK trade marks because they will not be able to meet the requirements of s 20(1) of the Trade Marks Act, namely that they must claim to be the proprietor of a mark used or proposed to be used by them in South Africa. Image Enterprises, by contrast, have applications for KODAK trade marks pending from 1986.

In their evidence before the court, Image Enterprises have said that they propose to use the trade mark KODAK in the photographic field. One of the ways in which they have suggested that they may use the trade mark is to acquire unmarked products from appropriate sources overseas and to package and sell such goods under the trade mark KODAK or a variation thereof, such as THE OTHER KODAK or THE SANCTIONS-BUSTING KODAK. This would take place against a background where Eastman Kodak no longer owns any South African registered trade marks and there could, therefore, be no question of such use of the trade mark KODAK by Image Enterprises constituting trade mark infringement. At best, Eastman Kodak may have a prospect of a remedy under the common law but it is trite under the law of passing-off that it matters not whether another trader's trade mark, get-up, etc is imitated as long as sufficient steps are taken to distinguish the competing goods from the original goods so as not to cause confusion as to origin. Moreover, common-law remedies



are essentially aimed at protecting goodwill. It is arguable whether someone who has disinvested from South Africa and has abandoned his trade marks, any longer has any goodwill in South Africa which is eligible for protection under the common law.

Image Enterprises have also suggested in their evidence before the court that they may export their KODAK products to countries where it is feasible to do business in alternate KODAK products.

No doubt there are some countries, particularly in the Third World, where such goods can be sold with impunity. Eastman Kodak would face the prospect of possibly having to counteract such sales in far-flung areas of the world without being able to prevent the flow of goods at source.

Whatever the outcome of the KODAK case might be, there is a lesson to be learnt by would-be disinvestors from South Africa.

The court of first instance decided in favour of Eastman Kodak because it considered that *on the evidence before it* abandonment of the trade mark KODAK by Eastman Kodak had as a factual question not been established. There is nothing to prevent Image Enterprises or any other interested party making a fresh attack on the KODAK registrations and adducing further and better evidence from which abandonment can be deduced. As the case is under appeal I will refrain from commenting on the merits of the judgment. However, it flows even from the judgment favourable to Eastman Kodak that if the facts of a particular matter can justify that disinvestment amounts to an abandonment of registered trade marks owned by a trade mark proprietor, those trade marks are liable to cancellation by an interested party and this could give rise to what the disinvestor would probably regard as "counterfeit" goods being produced in South Africa and exported with impunity to countries all around the world. In other words, a disinvestor may by his disinvestment find himself promoting an unassailable source of what he

would perceive to be "counterfeit" goods. He would have little cause for complaint because he would be the author of his own undoing. He could not blame the South African legal system or its intellectual property law because amongst the best and most sophisticated legal machinery in the world is available to him to protect himself against this sort of activity if only he chooses to play by the rules. The South African market is open and beckoning to him to sell his product in South Africa and if he elects not to do so he has no-one else but himself to blame for the consequences which may follow.

Of course, once five years have elapsed since a disinvestment and a withholding of product from the South African market has taken place, the whole matter becomes much simpler and someone in the position of Image Enterprises no longer has to argue abandonment of registered trade marks but can simply rely on the objective fact of no bona fide use for a continuous period of at least five years. The consequences which may follow from a disinvestor's trade marks being cancelled on the grounds of non-use would be the same as those which would follow from cancellation due to abandonment.

One imagines that Eastman Kodak must be sleeping uneasily. The thought that there is a reasonable prospect that the Appellate Division may expunge their KODAK registrations from the register and that such decision would be irreversible and may give rise to an unassailable source of what they would perceive to be "counterfeit" goods, must be uncomfortable to have to live with. It must surely be a risk which Eastman Kodak would prefer not to have to run. Goliath has been struck by David's slingshot. The seriousness of the impact and whether any wound which may have been caused is terminal remains to be seen. Time alone will tell. But Eastman Kodak may not be alone in their discomfort. Every disinvestor or would-be disinvestor from South Africa faces the same risk.

**Caveat disinvestor!**



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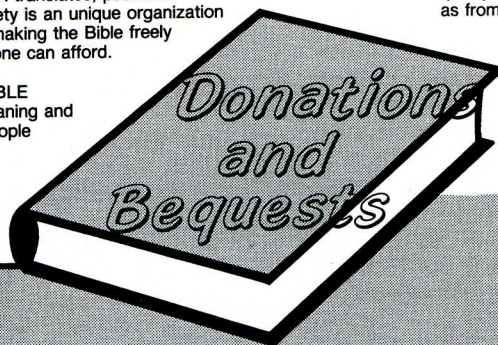
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