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Trademark rights trump title of goods, says court

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In *Pioko International Imports Inc v BOT International Ltd* (Case CV-09-8403, 20th November 2009) the Ontario Superior Court of Justice confirmed that trademark rights trump title of goods in Canada.

Cotton Ginny Inc entered into an agreement with Pioko International Imports Inc for production of certain goods to be marked with the COTTON GINNY marks. Cotton Ginny agreed to purchase all unsold goods at the end of a specified time period. If Cotton Ginny defaulted on the agreement, Pioko would have the right to remove all unsold goods; alternatively, if the agreement were terminated by either party, Cotton Ginny had the right to return all unsold goods to Pioko. In both these circumstances Cotton Ginny would be relieved of its obligation to pay for the unsold goods and Pioko would have rights to sell any unsold goods that were a result of either default or termination of the agreement.

Cotton Ginny placed 116 purchase orders in accordance with the agreement. Some of the orders were filled but not paid for, while the rest were not delivered. Cotton Ginny then gave notice of bankruptcy and sold its trademarks and other IP rights to BOT International Ltd.

The issue before the court was whether Pioko could sell the undelivered goods in Canada without infringing the COTTON GINNY marks owned by BOT.

Pioko argued that:

- When Cotton Ginny placed the orders, it put the undelivered goods into the course of trade.
- The doctrine of "first use", as set out in *Re Steward House Publishing Inc* ((2003) 24 CPR (4th) 488), should apply.

In *Steward* the publisher granted a licence to a distributor to import and distribute goods bearing the publisher's trademarks. When the agreement between the parties collapsed, the publisher objected to further distribution of the goods, claiming trademark infringement. The court found that when the goods were provided to the distributor, they were put into the course of trade for further sale with the permission of the publisher.

Alternatively, Pioko claimed that it already had rights to sell the undelivered goods as an implied term of the agreement, which Pioko claimed was a "consignment" agreement.

The court found that the agreement was a contractual agreement, not a consignment agreement. The consignment portion of the agreement was to address Cotton Ginny's payment provisions, and there was no suggestion that Pioko had rights to sell the products other than by delivery to Cotton Ginny. Since Cotton Ginny had full control over the sale process, it was not a mere distributor as in *Steward*. In the absence of authorities supporting that the doctrine of first use can occur when a retailer contracts for the purchase of trademarked goods to be manufactured in accordance with the retailer's specifications, the court held that Cotton Ginny did not put the undelivered goods into the course of trade by placing the orders as it had a contractual obligation to purchase all unsold goods. Therefore, the doctrine of first use failed in these circumstances.

In accordance with the agreement, Cotton Ginny was absolved of its obligation to pay for the unsold items as they were never delivered. Pioko had title of the unsold goods, with rights to pass title to a purchaser on any sale of the goods. However, the agreement did not address undelivered goods. The court questioned whether the implied right of sale under the agreement included implied licensed use in jurisdictions where Cotton Ginny held registered trademarks. It held that if the parties intended for Pioko to have rights to sell the Cotton Ginny goods in Canada, outside the Cotton Ginny retail stores, this would have been stated in the agreement. Therefore, without permission from BOT to sell the undelivered goods in Canada, any sale of the goods would infringe BOT's trademark rights.

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