

SUPREME COURT OF NOVA SCOTIA

Citation: Scanwood Canada Ltd. (Re) 2011 NSSC 393

Date: 20110629

Docket: Hfx. No. 342377

Registry: Halifax

IN THE MATTER OF: *The Companies' Creditors Arrangement Act,*
 1985, c. C-36, as amended

IN THE MATTER OF: A Plan of Compromise or Arrangement of Scanwood
 Canada Limited, a body corporate under the laws of
 the Province of Nova Scotia

D E C I S I O N

Judge: The Honourable Justice Suzanne M. Hood

Heard: June 29, 2011

Written Decision: October 28, 2011 (*Written release of Oral Decision of June 29, 2011*)

Counsel: Stephen Kingston, Q.C. and John Stringer, Q.C.
 for Green Hunt Wedlake Inc. (Receiver)
 James D. MacNeil for the Royal Bank of Canada
 Tim Hill for TCE Capital Corporation
 Brian Stilwell and Alex Ilchinko for IKEA Supply A.G.

By the Court:

[1] In this case, the Receiver is seeking an Order with respect to finished goods and raw materials of two types: some with the IKEA stamp on them and some without. The Receiver refers to the paragraph in the purchase agreement between IKEA and Scanwood dated January 21, 2011 which is at Tab 1 to the Third Report of the Receiver. At the top of page 2, it provides:

Buyer agrees, notwithstanding sections 1.2 and 15.1 of the General Purchasing Conditions, but subject to other items of this Agreement regarding quality of products, in the event of insolvency of, or appointment of a Receiver for the Seller, that Buyer will fulfil its obligations to acquire the products hereunder by acquiring the stock of ready made articles from the Receiver or other person in lawful control of the Seller's stock; and ii) to the extent the Buyer does not acquire the raw material stock of the Seller, Receiver or other person in lawful control of the Seller's stock may (a) sell any of the IKEA fittings or products with IKEA markings only to other IKEA Suppliers of the MALM product; and (b) sell any of the wood veneers, glue, boxes and other generic product, provided that such do not contain any IKEA markings or fittings, to any person.

[2] The Receiver has made it clear it is not seeking specific performance of the contract but giving IKEA an opportunity to buy, failing which they ask that the Court order that this material can be sold to someone else. The Receiver relies on s. 243 and s. 82 of the *Bankruptcy and Insolvency Act*, R.S.C., 1985, c. B-3 and the Receivership Order. Section 243 of the *Act* provides:

243. (1) Subject to subsection (1.1), on application by a secured creditor, a court may appoint a receiver to do any or all of the following if it considers it to be just or convenient to do so:

(a) take possession of all or substantially all of the inventory, accounts receivable or other property of an insolvent person or bankrupt that was acquired for or used in relation to a business carried on by the insolvent person or bankrupt;

(b) exercise any control that the court considers advisable over that property and over the insolvent person's bankrupt or insolvent business; or

(c) take any other action the court considers advisable.

[3] Section 82 of the *Act* provides:

82.(1) Where any property of a bankrupt vesting in a trustee consist of patented articles that were sold to the bankrupt subject to any restrictions or limitations, the trustee is not bound by the restrictions or limitations but may sell or dispose of the patented articles free and clear of the restrictions or limitations.

(2) Where the manufacturer or vendor of the patented articles referred to in subsection (1) objects to the disposition of them by the trustee as provided by this section and gives to the trustee notice in writing of the objection before the sale or disposition thereof, that manufacturer or vendor has the right to purchase the patented articles at the invoice prices thereof, subject to any reasonable deduction for depreciation or deterioration.

[4] The Receivership Order which was granted by me provides in paragraph 3 for certain powers of the Receiver and these include:

- a) to take possession and control of the Property and any and all proceeds, receipts and disbursements arising out of or from the Property;
- b) to receive, preserve, protect and maintain control of the Property. ...,
- i) to market any or all of the property including advertising and soliciting offers in respect of the Property or any part or parts thereof and negotiating any such terms and conditions of sale as the Receiver in its discretion may deem appropriate;
- j) to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business,
 - (i) without the approval of the Court ... [in certain circumstances]; and
 - (ii) with the approval of the Court ... [in other circumstances];
- q) to take any steps reasonably incidental to the exercise of these powers, ...

[5] Generally speaking, the mandate of the Receiver is to act in the best interests of the general body of creditors.

[6] IKEA says that the paragraph from the Purchase Agreement to which I have just referred must be read in the context of the entire contractual relationship between IKEA and Scanwood, including other contractual requirements such as

delivery provisions, warranty, etc. IKEA also says its trademark must be respected and protected. To allow the goods to be sold other than to IKEA offends that and should not be allowed.

[7] With respect to the so called buy back provision, I conclude it is a stand alone provision. To say that it imports all other contractual terms, in my view, flies in the face of its wording. It is made subject, specifically, to quality terms. In my view, this is a reasonable provision to protect IKEA. If the company is experiencing financial difficulties which lead to insolvency or the appointment of a receiver, there is good reason for IKEA to be concerned, in particular, about quality of the product produced. Examples of the problems which could occur in a company facing financial problems are such things as a reduction in the work force or labour strife; or an inability to purchase material which could lead to the use of substandard or defective materials on hand, to name just two examples. In such circumstances, it is logical that IKEA's principal concern about buying products in these circumstances would be the quality of the product. I therefore conclude that the paragraph should be read as a stand alone provision.

[8] With respect to the finished product, IKEA agreed to purchase that finished product, if satisfied with respect to quality. As noted above, the Receiver is not asking the Court to order IKEA to buy the product but to be able to sell it elsewhere if IKEA does not buy it.

[9] In my view, the more significant issue is the trademark issue. It is clear from the paragraph in the agreement to which I have just referred that IKEA was concerned about its trademark. It made specific provision with respect to materials with its trademark and a separate provision with non-trademark materials.

[10] The question for the court is whether IKEA's trademark rights can be overridden in a receivership so that trademarked product can be sold other than to the owner of the trademark for resale in its stores. I must weigh the trademark considerations against the mandate of the Receiver who acts in the interests of, and for the benefit of, the general body of creditors. It is clearly in the creditors' interest to have the finished product and the raw materials sold.

[11] The Receiver's report lists the value of the finished product as in excess of \$500,000 and the raw materials almost \$400,000. Even at the discounted prices

referred to in the correspondence from the Receiver, there is a substantial sum at stake.

[12] If the product cannot be sold to a third party because of trademark issues and IKEA does not buy it (or, in the case of some material, other suppliers of the MALM dressers), it is worthless or would be so unless the trademark can somehow be removed from it.

[13] IKEA has provided a number of case authorities with respect to trademark. I refer only to two and a quote from Fox on Canadian Trade-Marks and Unfair Competition, 4th ed., looseleaf (Toronto: Carswell 2010) The decisions in *Mattel Inc. v. 3894207 Canada Inc.*, 2006 SCC 22 and *Pioko International Imports Inc. v. B.O.T. International Ltd.*, 2009 CanLII 64819, 2009 CarswellOnt 7247 (SCJ) (WLeC) are the ones to which I will refer.

[14] In *Mattel*, Justice Binnie said in para. 21:

Trade-marks are something of an anomaly in intellectual property law. Unlike the patent owner or the copyright owner, the owner of a trade-mark is not required to provide the public with some novel benefit in exchange for the monopoly. ... By contrast, a patentee must invent something new and useful. To obtain copyright, a

person must add some expressive work to the human repertoire. In each case, the public through Parliament has decided it is worth encouraging such inventions and fostering new expression in exchange for a statutory monopoly (i.e. preventing anyone else from practising the invention or exploiting the copyrighted expression without permission). The trade-mark owner, by contrast, may simply have used a common name as its 'mark' to differentiate its wares from those of its competitors. Its claim to monopoly rests not on conferring a benefit on the public in the sense of patents or copyrights but on serving an important public interest in assuring consumers that they are buying from the source from whom they think they are buying and receiving the quality which they associate with that particular trade-mark. Trade-marks thus operate as a kind of shortcut to get consumers to where they want to go, and in that way perform a key function in a market economy. ...

[15] In the *Fox* text, the authors refer to exercising control over the trade-mark, failing which it may be expunged. Justice Bennie referred to that as well in *Mattell* at para. 5 where he said:

5. Unlike other forms of intellectual property, the gravamen of trade-mark entitlement is actual use. By contrast, a Canadian inventor is entitled to his or her patent even if no commercial use of it is made. A playwright retains copyright even if the play remains unperformed. But in trade-marks the watchword is "use it or lose it". In the absence of use, a registered mark can be expunged (s. 45(3)).

[16] In *Pioko International Imports Inc. v. B.O.T. International Ltd.*, 2009 CarswellOnt 7247 (SCJ) (WLeC), Justice Wilton Siegel dealt with a dispute involving *Pioko* which produced Cotton Ginny goods for the Cotton Ginny company. The Cotton Ginny company subsequently sold its trademark to another company and *Pioko* wanted to sell the trademarked Cotton Ginny goods other than

through Cotton Ginny stores. In para. 9 of the decision, Justice Wilton Siegel put the dispute as follows:

9. Pioko seeks a declaration that it may sell and import into Canada the Undelivered Cotton Ginny Goods and provide good title to any purchaser of the Undelivered Cotton Ginny Goods, without infringing the Cotton Ginny trademarks and without the permission of Cotton Ginny or B.O.T., notwithstanding that the Undelivered Cotton Ginny Goods incorporate the Cotton Ginny marks now owned by B.O.T.

[17] Justice Wilton Siegal considered the contract and said in para. 23 of that decision:

23. ... The Cotton Ginny Marks were an important component of the Cotton Ginny Goods. The Agreement is nevertheless silent on the issue of trade-mark infringement. In such circumstances, if the parties had intended Pioko to have the right to sell the Cotton Ginny Goods in Canada outside of Cotton Ginny stores, the Agreement would have explicitly provided for that.

[18] IKEA says that this decision is applicable here. If I understand its position correctly, it is saying that, if Scanwood could not sell the MALM dressers to anyone other than IKEA, the Receiver is in no better position, especially as there is a specific provision in the contractual arrangements about the trademarked product.

[19] The Receiver, on the other hand, refers to his overall mandate, the specific provisions of the Receivership Order and the two sections of the *Bankruptcy and Insolvency Act*, to which I have referred.

[20] First, with respect of s. 82, I cannot conclude that I should extend the meaning of that section. It deals specifically with patented articles which were sold to the bankrupt. Neither of those things applies here. If patented articles are sold, the patent still exists and the purpose for which patents are granted is not interfered with.

[21] Section 243 of the *Bankruptcy and Insolvency Act* does not address trademark issues specifically nor, of course, does the Receivership Order. Section 243 (c) is very broad and gives the court discretion to allow the Receiver to “take any other action that the court considers advisable.”

[22] In deciding if the Receiver’s proposed action is advisable and whether to exercise my discretion, I must consider the trademark issue and the overall purpose of trademarks. As I have said, this must be weighed against the interests of the general body of creditors. Justice Wilton Siegel said he had sympathy for the

position of *Pioko* which would be left with either buying product from its supplier which it could not sell or presumably facing the consequences of failing to honour its contract - neither a desirable outcome.

[23] I have sympathy for the general body of creditors who may be unable to have the benefit of the Receiver's sale of the materials referred to in this motion. However, I cannot conclude that it is an appropriate exercise of my discretion to override IKEA's trademark. If trademarked goods are sold other than as agreed between Scanwood and IKEA, in my view, there is a serious infringement of the purpose of the trademark protection; that is, differentiating its products and the quality of its products from others. There is no guarantee of the quality of these products. The second purpose of trademark protection is to allow the consumer to buy with confidence from a source they trust so they know what they are getting. In my view, this would be interfered with as well.

[24] I therefore dismiss this part of the motion of the Receiver (with the hope that the negotiations may result in a different conclusion).

Hood, J.