IP AND JOINT VENTURES: A CAUTIONARY TALE

Recently, I had three inquiries in one day from parties contemplating a business relationship akin to a joint venture: (a) a band of musicians recording music for commercial distribution; (b) two businesses cooperating to organize a seminar for clients and prospective clients; and (c) two businesses contemplating the joint development and operation of a new web site.

In each case, the venture would have its own name and would likely result in the creation of new content, both of which can be protected as intellectual property (IP). Each inquiry was, of course, about how to protect the IP. However, not one had even considered the question of who would <u>own</u> the IP.

As previously discussed in an earlier article for the Hamilton Law Journal (October 2009), co-ownership may appear fair but the law relating to the joint ownership of IP is fraught with challenges making it, at best, inconvenient and, at worst, downright draconian. A recent decision of the Federal Court in *JAG Flocomponents N.A.* v. *Archmetal Industries Corp*., (2010) FC 627 is an instructive tale showing how this law can work to the detriment of all the parties to a joint venture.

Co-Ownership in Review

First, let's review. With respect to copyright and patents, co-owners have restricted rights in Canada to exploit their joint work or invention independently of each other. In the absence of a prior agreement to the contrary,

- the co-owners of *copyright* may assign their interest to another party, but they cannot independently publish, reproduce or license that work without the consent of all the other owners; and
- each co-owner of a *patent* is entitled to work the patent themselves on their own account and may (with limitations) assign their entire interest to another party, but they cannot independently license the patent without the consent of all the other owners.

These restrictions can make it difficult, if not impossible, to effectively exploit a work or invention in Canada without the cooperation of all the co-owners.

With respect to *trademarks*, title should not be shared in Canada. A trademark is a mark used for the purpose of distinguishing wares and services sold by <u>one</u> business from those sold by other businesses. Where a trademark fails to serve this purpose, it will no longer qualify as a trademark. A single legal entity should therefore retain exclusive control over the use of a trademark, including the character and quality of the wares and services associated with the mark. In the case of joint venture, the legal entity may be a partnership composed of its members or a company who shares are owned by its members. Alternatively, the trademark may be owned by one member and licensed to the joint venture.

It is also important to note that the rights of the co-owners of IP vary from country to country. For instance, the law related to the co-ownership for patents is very different in the US. This makes it a challenge to manage co-owned IP at the international level.

JAG Flocomponents N.A. v. Archmetal Industries Corp.

This case was an action by JAG Flocomponents N.A. ("JAG") to expunge a trademark registration for the word FUSION which had been registered to its former business partner, Archmetal Industries Corp. ("Archmetal"), in 2006.

Starting in 2001, JAG and Archmetal had entered into a joint venture for the manufacture and distribution of industrial valves to the oil industry in Canada. Archmetal was to be responsible for manufacturing the valves and JAG was to be responsible for their sale and distribution. Archmetal's parent company was known as Fortune Manufacturing and, initially, the parties proposed to use FORTUNE as the trademark for the valves. However, the trademark was later changed by mutual agreement to FUSION to overcome a perceived prejudice against goods manufactured in China.

In early 2002, JAG and Archmetal entered into a consignment agreement to govern their relationship. This new agreement included the following critical clause:

> *12. Any new products, designs, patents, inventions, calculations, <u>and other intellectual property</u> which arise directly or indirectly pursuant to or in consequence of this agreement shall be deemed to [sic] equally owned by the parties hereto.*

Nevertheless, Archmetal filed a Canadian trademark application for FUSION in March 2003 which ultimately matured to registration in 2006. JAG filed two of its own Canadian trademark applications for FUSION in April and October 2003. Both were successfully opposed by Archmetal. Neither acknowledged the other member of the joint venture in any of their applications.

Not surprisingly, both parties deliberately omitted clause 12 of the consignment agreement when they filed evidence to support their respective trademark claims with the Canadian Intellectual Property Office. As noted by the trial judge,

> Clause 12 is a double-edged sword slaying the claims of both sides. Each side wished to avoid the real consequences of their agreement — that neither could claim sole ownership of FUSION.

Matters were further complicated by the fact that JAG contracted in February 2002 with a second manufacturer, Suzhou Neway Machinery Co., Ltd. ("Neway"), for industrial valves not available from Archmetal. In the agreement with this second manufacturer, it was agreed that the mark FUSION would appear on these valves as well. In November 2002, JAG even produced a catalogue in which the FUSION mark was prominently displayed with products manufactured by both Archmetal and Neway.

On the evidence, there was no question that Archmetal was:

a. aware and acquiesced in the use of the FUSION mark on the valves manufactured by Neway; and
b. had exercised no product quality control over these products.

Outcome

Predictably, the joint venture was effectively terminated in July 2003 and the parties headed to court. The corporate dispute is being heard in the Alberta courts and will undoubtedly provide other lessons in how <u>not</u> to structure a joint venture.

With respect to the trademark dispute, the Federal Court concluded that:

a. the mark FUSION had been owned jointly by JAG and Archmetal and, consequently, neither ever had the exclusive rights to the mark;

b. in all the circumstances, the mark FUSION had not acquired, or if acquired, it had lost, its ability to distinguish the wares and services of one business from another; and

c. the Archmetal registration for the FUSION mark was obtained on the grounds of a material omission.

As succinctly stated by the trial judge, FUSION had been "poisoned" as a viable trademark. In the result, the registration was expunged and neither party can claim any exclusive rights to the mark in Canada for industrial valves sold in the oil industry.

Conclusion

As stated in my earlier article on the ownership of IP, parties are well-advised to set out their expectations in writing at the outset of the relationship, preferably with the benefit of informed legal advice. As well-demonstrated by this case, the co-ownership of IP can result in unexpected and dissatisfying results for all the parties involved.

With respect to IP, the best advice is often "don't share".

Disclaimer: The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.