

*Article 40*

[Third party claims based on industrial or intellectual property]

(1) The seller must deliver goods which are free from any right or claim of a third party based on industrial or intellectual property, of which at the time of the conclusion of the contract the seller knew or could not have been unaware, provided that that right or claim is based on industrial or intellectual property:

(a) under the law of the State where the goods will be resold or otherwise used if it was contemplated by the parties at the time of the conclusion of the contract that the goods would be resold or otherwise used in that State; or

(b) in any other case under the law of the State where the buyer has his place of business.

(2) The obligation of the seller under paragraph (1) of this article does not extend to cases where:

(a) at the time of the conclusion of the contract the buyer knew or could not have been unaware of the right or claim; or

(b) the right or claim results from the seller's compliance with technical drawings, designs, formulae or other such specifications furnished by the buyer.

(3) The buyer does not have the right to rely on the provisions of this article if he does not give notice to the seller specifying the nature of the right or claim of the third party within a reasonable time after he became aware or ought to have become aware of the right or claim.

PRIOR UNIFORM LAW

None.

**Commentary**

1. Third-party claims based on industrial and intellectual property raise somewhat different problems than do other third-party claims.<sup>1</sup> Therefore, such claims are considered specifically in article 40.

*Claims for which seller is liable, paragraph (1)*

2. Article 40 provides that the seller is liable to the buyer if a third-party has a right or claim in respect of the goods based on industrial or intellectual property. The reasons for this rule and the consequences of it are the same as those described in paragraphs 3 and 4 of the commentary to article 39.

3. It appears to be the general rule in most, if not all, legal systems that the seller is obligated to deliver goods free from any right or claim of any third party based on industrial or intellectual property.<sup>2</sup> In the

<sup>1</sup> In current usage the term "intellectual property" is usually understood to include "industrial property." See, Convention Establishing the World Intellectual Property Organization (Stockholm 14 July 1967), article 2 (viii). Nevertheless, it was thought to be preferable to use the term "industrial and intellectual property", rather than "intellectual property", in order to leave no question as to whether third-party claims based on, *inter alia*, an alleged infringement of a patent were covered by article 40 of this Convention.

<sup>2</sup> The exception to the seller's liability in article 40 (2) (b) of this Convention is found in at least some legal systems.

context of a domestic sale, this rule is appropriate. The producer of the goods should be ultimately responsible for any infringement of industrial or intellectual property rights in the country within which he is both producing and selling. A rule that places the liability on the seller allows for this liability ultimately to be placed on the producer.

4. It is not as obvious that the seller of goods in an international trade transaction should be liable to the buyer in the same degree for all infringements of industrial and intellectual property rights. In the first place, the infringement will almost always take place outside the seller's country and, therefore, the seller cannot be expected to have as complete knowledge of the status of industrial and intellectual property rights which his goods might infringe as he would have in his own country. In the second place, it is the buyer who will decide to which countries the goods are to be sent for use or resale. This decision may be made either before or after the contract of sale is concluded. It will even be the case that the buyer's subpurchasers may take the goods to a third country for use.

5. Paragraph (1), therefore, limits the seller's liability to the buyer for infringements of the industrial or intellectual property rights of third parties. This limitation is achieved by specifying which industrial or intellectual property laws are relevant in determining whether the seller has breached his obligation to supply goods free from the industrial or intellectual property rights or claims of a third party. The seller breaches his obligation under the Convention if a third party has industrial or intellectual property rights or claims under the law of a State where the goods were to be resold or used if such resale or use was contemplated by the parties at the time of the conclusion of the contract. In all other cases the relevant law is the law of the State where the buyer has his place of business.<sup>3</sup> In either case, the seller is in a position to ascertain whether any third party has industrial or intellectual property rights or claims pursuant to the law of that State in respect of the goods he proposes to sell.

6. Paragraph (1) introduces an additional limitation on the liability of the seller in that the seller is liable to the buyer only if at the time of the conclusion of the contract the seller knew or could not have been unaware of the existence of the third-party claim. The seller "could not have been unaware" of the third-party claim if that claim was based on a patent application or grant which had been published in the country in question. However, for a variety of reasons it is possible for a third party to have rights or claims based on industrial or intellectual property even though there has been no publication. In such a situation, even if the goods infringe the third party's rights, article 40 (1) provides that the seller is not liable to the buyer.

7. It should be noted that paragraph (1) does not limit any rights which the third party may have against either the buyer or the seller. These rights would follow from the law of industrial or intellectual property of the country in question. Paragraph (1) is limited to providing that it is the buyer, rather than the seller, who must bear any loss arising out of the existence of third-party rights of which the seller could not have been aware at the time of the conclusion of the contract.

8. If the parties did contemplate that the goods would be used or resold in a particular State, it is the law of that State which is relevant even if the goods are in fact used or resold in a different State.

*Limitations on sellers' liability, paragraph (2)*

9. Article 40 (2) (a), like article 33 (2) in respect of lack of conformity of the goods, provides that the seller is not liable to the buyer if at the time of the conclusion of the contract the buyer knew or could not have been unaware of the third party's right or claim. It differs from article 39 (1) which exempts the seller from liability only if the buyer has agreed to take the goods subject to the third party's right or claim.

10. Article 40 (2) (b) also exempts the seller from liability to the buyer if the right or claim results from the seller's compliance with technical drawings, designs, formulae or other such specifications furnished by the buyer. In such a case it is the buyer, not the seller, who has taken the initiative to produce or make available the goods which

infringe on the third-party's rights and, therefore, who should bear the responsibility. However, a seller who knows or could not be unaware that the goods as ordered would or might infringe on a third-party's rights based on industrial or intellectual property may have an obligation under other doctrines of law to notify the buyer of such possible infringement.

*Notice, paragraph (3)*

11. The notice requirement in paragraph (3) is identical to that found in article 39 (2) and similar to that in article 37 (1).

*Relationship to lack of conformity of the goods*

12. For the relationship of this article to the consequences of the seller's failure to deliver goods which conform to the contract, see paragraphs 7 and 8 of the commentary to article 39.

<sup>3</sup> The criteria for determining where the buyer has his place of business are set out in article 9.