

Intellectual Property Rights Infringements in the International Sale of Goods

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1	Setting the Stage	38
1.1	Intellectual property and international trade.....	38
2	The Contract of Sale	40
2.1	Article 42 CISG: legislative history	41
2.2	When to apply Art. 42 CISG: chandeliers to New York	44
2.3	‘Industrial or other intellectual property’	47
2.4	Limitations to the seller’s warranty.....	50
2.5	Exclusions of the seller’s warranty	54
3	The CISG Solution	56

A transaction for the sale of goods generally involves two entities – a seller and a buyer – who enter into a contract regulating their mutual obligations. However, when the goods sold are subject to a third-party intellectual property right or claim, the right holder – who is not a party to the contract – may want to enforce his exclusive rights. Things get complicated when the contract of sale is international in character and falls within the scope of the CISG. The liability of the parties in such instances is governed, absent a specific clause (eg because of inconsistent clauses knocking each other out in a battle of the forms), by Art. 42 CISG. The present paper aims at finding a way to make Art. 42 CISG more predictable, by suggesting an authentic interpretation of the provision pursuant to Art. 3(3)(a) of the Vienna Convention on the Law of Treaties.

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1 Setting the Stage

1.1 Intellectual property and international trade

A transaction for the sale of goods generally involves two entities – a seller and a buyer – who enter into a contract regulating their mutual obligations. However, when the goods sold are subject to a third-party intellectual property (hereinafter “IP”) right or claim, the right holder – who is not a party to the contract – may want to enforce his exclusive rights over such IP-protected goods. By doing so, the right holder interferes with the transaction: what was once a bilateral dealing, now becomes a triangular net of relationships of both substantive and procedural nature. Such net becomes even more intricate when the contract of sale is international in character.¹ By virtue of the territoriality principle inherent in intellectual property, IP rights arising in one country have legal effect in that country only,² meaning that – absent parallel protection in another country – any person could legitimately manufacture goods that would otherwise be infringing.³ Problems arise when the manufacturer sells these products to a buyer operating in the protecting country. Such importation may constitute an infringement of the exclusive rights of a third party, who is entitled to a broad array of instruments to enforce his IP rights.

The issues arising from such importation are not to be underestimated. The constant interplay between globalisation and innovation⁴ puts intellectual property centre stage in transnational trade. This is evidenced by a series of factors. First and foremost, intellectual property gained international recognition with the conclusion of the 1883 Paris Convention for the Protection of Industrial Property and the 1886 Berne Convention for the Protection of Literary and Artistic Works. In 1893, the International Bureaus established by both Conventions merged to form the International Bureau for the Protection of Intellectual Property (BIRPI) and in 1970 BIRPI became what we know today as the World Intellectual Property Organization (WIPO).⁵ The acknowledgment of the importance of intellectual

¹ For the purposes of the present paper, a contract of sale is international in character when it triggers the application of the 1980 Vienna Convention on Contracts for the International Sale of Goods. By Art. 1(1)(a) of the Convention, a sale contract is international when it is concluded between parties whose places of business are in different States which are amongst its signatories. Under Art. 1(1)(b), the Convention will also apply whenever the rules of private international law lead to the application of the law of a Contracting State.

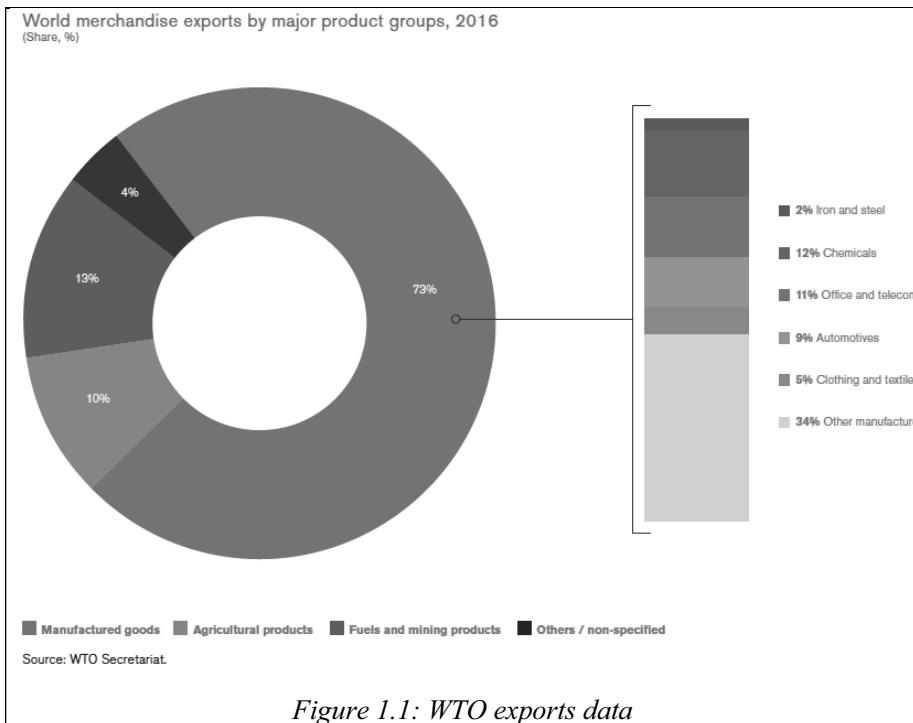
² See Alexander Peukert, ‘Territoriality and Extraterritoriality in Intellectual Property Law’ in Günther Handl, Joachim Zekoll, Peer Zumbansen, (eds), *Beyond Territoriality: Transnational Legal Authority in an Age of Globalization* (2012, Leiden/Boston) at p. 189.

³ *ibid.* See also Annette Kur, Thomas Dreier, *European Intellectual Property Law – Text, Cases and Materials* (2013, Cheltenham) at p. 13.

⁴ See, for example, Yuriy Gorodnichenko, Jan Svejnar, Katherine Terrell, *Globalization and Innovation in Emerging Markets*, NBER Working Paper No. 14481, 2008, at p. 2 (‘With the opening of borders to trade and foreign investment, globalization brings opportunities and pressures for domestic firms in emerging market economies to innovate and improve their competitive position.’).

⁵ For a timeline of WIPO’s history, see <www.wipo.int/about-wipo/en/history.html>.

property in international trade, however, has been formalised only in 1994, with the adoption of the Agreement on Trade-Related Aspects of Intellectual Property (the TRIPs Agreement) as a part of the Convention Establishing the World Trade Organization (WTO). The TRIPs Agreement brought IP rules within a multilateral trade system for the first time, with the intent ‘to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade’.⁶



The international and institutional recognition of intellectual property is further confirmed by the value of world exports on a total of USD 15.46 trillion⁷ with respect to the main categories of merchandises (*Figure 1.1*). Chemicals, telecom equipment, clothing – and also furniture and toys, which are among the ‘other manufactures’ – are all product groups that can be connected to intellectual property rights. To date, almost every good is subject to one or more IP rights. And the more goods subject to IP rights there are, the more the aforementioned interferences of third parties to a contract of sale are likely to happen. The more such goods are sold and purchased transnationally, the more problems relating to infringement, jurisdiction and warranty requirements are likely to arise.

⁶ See TRIPs Agreement, Recital 1.

⁷ World Trade Statistical Review 2017, at p. 19, available at <https://www.wto.org/english/res_e/statis_e/wts2017_e/wts2017_e.pdf>.

2 The Contract of Sale

At the base of the triangular net of relationship referred to above is the relationship between seller and buyer, which is generally regulated by a contract, whereas the law governing the contract will compensate for the matters which are not regulated by the contract. In broad terms, a contract can be defined as ‘an agreement that the law recognizes as binding’.⁸ Agreement means that the parties have mutually concurred on something – the *terms* of the contract. Negotiation is the process through which such agreement is normally reached: either of the parties makes an offer, which is followed either by the acceptance of the other party or by a counteroffer. This goes on and on until the so-called ‘meeting of the minds’ – or *consensus ad idem* – is achieved.

The parties will generally agree on all the details of their transactions, such as the price and quantity of the goods, or the place and time of performance. Alongside these provisions, a contract for the sale of goods will usually also contain some terms governing the liability of the parties in respect of certain features of the goods themselves. These terms often go by the name of *warranties* – although the CISG does not use such terminology. A warranty consists of ‘an express or implied promise that something in furtherance of the contract is guaranteed by one of the contracting parties’.⁹

A warranty is *express* when it ‘arises from the contract.’¹⁰ If the contract requires that the goods possess certain characteristics, then the goods must conform to what has been agreed by the parties. This is reflected in Art. 35(1) CISG.

An *implied* warranty, on the other hand, is ‘an obligation imposed by the law’¹¹ – absent a promise to this effect in the contract. The CISG, as other legal systems,¹² knows four types of implied warranty – namely, the *warranty of merchantability*, the *warranty of fitness*, the *warranty of actual title* and the *warranty against infringement of third-party intellectual property rights*. It should be noted, however, that not every legal system follows this taxonomy of implied warranties. There are systems, in fact, that consider the warranty against infringement as part of the warranty of title.¹³

⁸ Martin Davies, David V. Snyder, *International Transactions in Goods – Global Sales in Comparative Context* (2014, Oxford University Press, New York) at p. 73.

⁹ Bryan A. Garner and Henry C. Black, ‘Warranty’, def. 2, *Black’s Law Dictionary* (2014, St. Paul) at p. 1821.

¹⁰ Julian B. McDonnell, *Commercial and Consumer Warranties* (Rev. ed, 2001, Matthew Bender) § 1.02.

¹¹ Garner and Black, ‘Warranty’ (fn 9) at p. 1822.

¹² For a comparative overview of the different kinds of implied warranties existing in the legal systems of the main EU Member States, see Ewoud Hondius, Viola Heutger, Christoph Jeloschek et al. (eds), *Principles of European Law on Sales (PELS)*, pp. 181 ff. For a comparison between the UCC and the CISG’s implied warranties, see Davies and Snyder (fn 8), pp. 185 ff.

¹³ See §2-312, 314 and 315 of the *Uniform Commercial Code* (USA); Article 46 of the *Vietnam Commercial Code*; and Sections 433-434 of the *Czech Commercial Code*.

The implied warranty of merchantability is contained in Art. 35(2)(a) CISG, which requires that the goods be 'fit for purposes for which goods of the same description would ordinarily be used'.¹⁴ In a similar fashion, the implied warranty of fitness set out in Art. 35(2)(b) CISG requires that the goods be fit for the buyer's particular needs 'expressly or impliedly made known to the seller' at the time of contracting. The implied warranty of actual title (also referred to as warranty of title) requires the seller to ensure that he is in fact entitled to transfer the property and that the goods are not encumbered with any third-party right or claim, such as a lien. The provision – contained in Art. 41 CISG – covers only third-party rights or claims other than those stemming from intellectual property. The warranty against copyright, patent or trademark infringements is governed by a separate provision – Art. 42 CISG – that constitutes the main focus of the present article.

2.1 Article 42 CISG: legislative history

2.1.1 In the beginning was Art. 52 ULIS...

The 1964 Hague Conventions – namely the Uniform Law on the International Sale of Goods (ULIS) and the Uniform Law on the Formation of Contracts for the International Sale of Goods (ULFC) – are the first examples of the revival of the law merchant, started by the Institute for the Unification of Private Law (UNIDROIT) in the late 1920s.

Under the ULIS, third-party rights and claims in relation to the goods sold were regulated by Art. 52.¹⁵ The provision does not make any express reference to intellectual property rights. According to an authoritative opinion, Art. 52 ULIS is limited to third-party *ownership* claims¹⁶ – it was not designed to set forth an implied warranty against infringement in the sense we explained earlier. The ULIS treated third-party intellectual property rights 'simply as defects in title infringing upon the *use* of purchased goods',¹⁷ thus falling within the scope of Art. 33(1)(d) ULIS.¹⁸ Under Art. 35 ULIS, however, whether or not goods were conforming should have been determined 'by their condition at the time when risk passes'. In

¹⁴ §41(4) of the *Norwegian Sales Act* expressly provides the matter be dealt with under the rules governing the warranty of title. See also Section 41 of the *Finnish Sale of Goods Act*; §435 of the *German BGB*; Articles 7:15-16 of the *Dutch Civil Code*; and Article 6.321 of the *Lithuanian Civil Code*. In England and Scotland, the relevant precedent is *Niblet, LTD v. Confectioners' Materials Co.* (1921) 3KB 387.

¹⁵ Article 52 Draft ULIS: 'Where the goods are subject to a right or claim of a third person, the buyer, unless he agreed to take the goods subject to such right or claim, shall notify the seller of such right or claim, unless the seller already knows thereof, and requests that the goods should be freed therefrom within a reasonable time or that other goods free from all rights and claims of third persons be delivered to him by the seller.'

¹⁶ John O. Honnold, *Uniform Law for International Sales Under the 1980 United Nations Convention* (3rd ed, 1999, The Hague) at §268 (hereinafter as *Uniform Law*).

¹⁷ Peter Schlechtriem, *Uniform Sales Law – The UN-Convention on Contracts for the International Sale of Goods* (1986, Manz, Vienna) at p. 72 (emphasis added).

¹⁸ Article 33(1) ULIS: 'The seller shall not have fulfilled his obligation to deliver the goods where he has handed over: [...] (d) goods which do not possess the qualities necessary for their ordinary or commercial use.'

commercial transactions, risk passes at different moments in time, depending on the terms of the contract. If we were to apply the ULIS to the Hypothetical below (at Part 2.2), the seller would be found responsible ‘under terms quoted “Ex Ship”, but not under terms quoted “F.O.B. Port of Loading”’.¹⁹ This could have led to ‘whimsical results’.²⁰

2.1.2 From ULIS to CISG: negotiations within UNCITRAL

The uniform model proposed by the ULIS and ULFC failed, as they tried to impose an autonomous interpretation and application of their provisions leaving no room for domestic law and conflict rules.²¹ A compromise was required, a solution that ‘stretched the uniform substantive model as far as possible while retaining a modest place for domestic law and conflict rules’.²² The 1980 Vienna Convention on the International Sale of Goods (CISG) – with its strengths and shortcomings – was the first attempt aimed at reaching this compromise under the aegis of the United Nation Commission on International Trade Law (UNCITRAL).

The rule originally contained in Art. 52 ULIS is now found in Art. 41 CISG, which is ‘worded much more clearly’²³ than its predecessor. In fact, the provision expressly excludes the infringement of intellectual property rights from its scope and makes clear that they are to be governed by Art. 42 CISG. The question is: what brought the drafters of the CISG to design a special rule governing the seller’s liability for infringement of IP rights? The answer is provided by the UNCITRAL *travaux préparatoires* on Arts. 41 and 42.

At first glance, Art. 25 of the 1976 Geneva draft seems to be no more than a rewording of Art. 52 ULIS. The uncertainties on whether the provision was to include third-party rights and claims based on intellectual property, however, were dispelled by draft Art. 7(2), which expressly excluded from the scope of the Convention the rights and obligations which might arise between the seller and the buyer because of the existence of any rights or claims of any person which relate to industrial or intellectual property.

Norway was particularly concerned that excluding intellectual property rights from the scope of the Convention – at least ‘in cases where such rights are embodied in the goods sold, as a concrete claim *in rem*’²⁴ – could entail undesirable consequences. More specifically,

¹⁹ Honnold, *Uniform Law* (fn 16).

²⁰ *ibid.*

²¹ Filip De Ly ‘Sources of International Sales Law: an Eclectic Model’ (2005) 25(1) *Journal of Commerce and Law* 1, at p. 3.

²² *ibid.*

²³ Ingeborg Schwenzer, ‘Article 41’, in Ingeborg Schwenzer (ed), *Schlechtriem & Schwenzer: Commentary on the UN Convention on the International Sale of Goods (CISG)* (2010, Oxford) at §1 (hereinafter as *Commentary*).

²⁴ ‘Comments by Governments and international organizations on the draft convention on the international sale of goods (A/CN.9/125 and A/CN.9/125/Add. 1 to 3)’, *United Nations Commission for International Trade Law Yearbook* (Volume VIII: 1977, United Nations Publication, New York) at p. 121.

'[t]he claim and the seller's liability will depend on the law applied by the court seized with the case. Since the laws in this field, as well as the rules on conflict of law, differ much from State to State, the system will create great uncertainties for the parties.'²⁵

Several solutions were put forward by States and international organisations alike. Norway proposed the introduction of a paragraph (2) to Art. 25, specifically dealing with IP rights, and the mere amendment of Art. 7(2) ('Except as otherwise provided in article 25 paragraph 2 [...]'). Other States, plus the International Chamber of Commerce (ICC), pushed for the removal of Art. 7(2). Additional comments came from the Federal Republic of Germany (FRG) and the ICC. The FRG suggested that Art. 7(2) be removed with no further action and the intellectual property matter be dealt with under Art. 25. Similarly, the ICC suggested Art. 7(2) be removed with no further action and the intellectual property matter be dealt with under Article 19 on non-conformity. As an alternative, the ICC proposed the deletion of Art. 7(2) be coupled with the introduction of a paragraph (2) to Art. 25.²⁶

The 1977 Vienna draft introduced a separate provision – Art. 26 – in order to cover third-party 'industrial or intellectual property rights or claims'.²⁷ Art. 7(2) was accordingly deleted.²⁸

Negotiations leading to the 1978 New York draft mainly focused on the implementation of the 1964 ULFC into the Convention in the works, which did not cover the formation of contracts. This merely entailed a renumbering of the provisions at issue – now Art. 39 and Art. 40, respectively.

Articles 39 and 40 were back on the UNCITRAL's agenda two years later, in 1980, during the negotiations that led to the adoption of the final text of the CISG. For one thing, WIPO proposed the reference 'industrial or intellectual property' be changed to 'industrial or other intellectual property'. Nigeria made yet another point by proposing the merger of Arts. 39(1) and 40(1) as they were identical in purposes. Sweden, Germany and Hungary, on the contrary, sustained that industrial and intellectual property constituted a separate case. Hungary, in particular, explained that '[w]ith regard to the rights mentioned in article 39, the seller might have no difficulty in knowing what they were, but that did not apply to the rights referred to in Article 40.'²⁹

²⁵ *ibid*, at p. 121.

²⁶ For comments of other Governments and international organisations, see *ibid*, at pp. 109-142. For the Report of the Secretary-General analysing these comments, see *ibid*, at pp. 142-163.

²⁷ *ibid*, at p. 41.

²⁸ *ibid*.

²⁹ See United Nations Conference on Contracts for the International Sale of Goods, Vienna, 10 March – 11 April 1980. *Documents on the Conference and Summary Records of the Plenary Meetings and of the Meetings of the Main Committees* (A/CONF.97/19, 1991, New York) at p. 324.

The CISG was eventually adopted on 11 April 1980. Art. 40 of the New York draft now corresponds to Article 42.

2.2 When to apply Art. 42 CISG: chandeliers to New York

Before going any further, the next issue we must address is: *when* does Art. 42 CISG apply? To answer this question, we will avail ourselves of a hypothetical case.

Hypothetical. Diaodeng Limited is a small manufacturer of luminaires and chandeliers based in Beijing, China. Agents of Diaodeng attended the 2017 International Chandelier Fair in New York, United States, where they met an officer of Interior, Inc., a New York retailer in the furniture industry. There, Interior expressed an interest in DengWang – a design chandelier manufactured by Diaodeng. Diaodeng and Interior exchanged forms containing inconsistent boilerplate terms³⁰ with respect to warranty liabilities. The fine print in Interior’s order form placed liability on the seller for *any* third-party claim based on intellectual property. Diaodeng’s confirmation of order, on the other hand, contained a disclaimer of warranty. Regardless of such discrepancies, Interior performed by paying the price for the goods. On January 13, 2018, Diaodeng delivered the first installment and, three weeks later, Lucignolo S.p.A. – an Italian manufacturer of design chandeliers – sued Interior, claiming that DengWang infringed upon its design rights. Interior, which lost the case, is now filing a lawsuit against Diaodeng for breach of warranty. First, was there a contract between Interior and Diaodeng? If so, what provision should govern the matter?

The facts presented above clearly fall within the scope of application of the CISG. We have a contract for the sale of goods between two parties having their places of business in different countries – both of which are signatories to the CISG. In the case at issue, the parties were on the same page as far as negotiated terms were concerned but could not come to an agreement with respect to warranties. Instead, they exchanged not-perfectly matching pre-printed form contracts putting forward terms and conditions to protect their own interests. These inconsistent provisions were disregarded by the parties, who performed according to the negotiated terms. But what now that a dispute has arisen? This is what is commonly referred to as battle of the forms. Domestic laws and courts have given different solutions to this issue. To keep it simple, we will assume that the dispute is governed by the CISG. Now, inconsistent forms fail to constitute offer and acceptance, but as to the first

³⁰ As distinguished from negotiated terms like quantity, price, time and place of delivery, boilerplate terms generally appear on the back of the form and contain provisions which favour the respective position of each party. See Larry A. DiMatteo et al., *International Sales Law: A Critical Analysis of CISG Jurisprudence* (2005, Cambridge University Press, New York) at p. 66.

question – is there a contract? – courts and commentators seem to concur that

'[t]he fact that the mutual general terms and conditions partially [contradict] each other [does] not prevent the existence of the sales contracts because the parties did not view this contradiction as an obstacle to the execution of the [contract].'³¹

Indeed, performance by the parties evidences mutual intent to be bound by – at least – the *essentialia negotii*, therefore we can conclude that there was a contract of sale between Diaodeng and Interior.

Answering the second question – what provision should govern the matter? – requires further inquiries into the *content* of the contract concluded by the parties' exchanged inconsistent forms. As put by Professor Schlechtriem, 'neither the different situations of collision nor the various possible behaviours of the parties can be unified in a single formula'.³² In fact, three approaches have been suggested by commentators and courts applying the CISG to the problem.

(1) It is the minority opinion that the CISG is inadequate to determine the content of a contract, meaning that 'a court may have no alternative other than to refer to a domestic solution'³³ to fill the gap pursuant to Art. 7(2) CISG. This solution seems undesirable since the application of conflict of laws rules brings further uncertainty in a framework that is sufficiently uncertain itself.

(2) The second approach stems from the strict interpretation of Art. 19 CISG, according to which the offer and acceptance must be consistent in their material terms, or else there is no contract. Forms will keep going back and forth until the last one is 'implicitly accepted by the performance'.³⁴ Commentators refer to this approach as the last shot doctrine: the terms of the last

³¹ Bundesgerichtshof, Germany, 9 January 2002, VIII ZR 304/00, English translation available at <cisgw3.law.pace.edu/cases/020109g1.html>. Among other cases: Tribunal Supremo, Spain, 17 February 1998, 2977/1996, English translation available at <cisgw3.law.pace.edu/cases/980217s4.html>; Amtsgericht Kehl, Germany, 6 October 1995, 3 C 925/93, English translation available at <cisgw3.law.pace.edu/cases/951006g1.html>.

³² Peter Schlechtriem, 'Kollidierende Geschäftsbedingungen im internationalen Vertragsrecht' in K. H. Thume (ed), *Festschrift für Rolf Herber zum 70. Geburtstag* (1999, Neuwied), English translation available at <cisgw3.law.pace.edu/cisg/biblio/slechtriem5.html>.

³³ François Vergne, 'The "Battle of the Forms" Under the 1980 United Nations Convention on Contracts for the International Sale of Goods' (1985) 33 *American Journal of Comparative Law*, at p. 257. See also Louis F. Del Luca, 'Implementation of Contract Formation Statute of Frauds, Parol Evidence, and Battle of Forms CISG Provisions in Civil and Common Law Countries' (2005/2006) 25 *Journal of Law and Commerce*, at p. 145.

³⁴ Davies and Snyder (fn 8) at p. 119.

form fired by either of the parties control.³⁵ In our example, it was Diaodeng to fire the last shot. Should the court embrace this doctrine, Diaodeng's terms – including the disclaimer of liability – are to prevail and Interior would have no case.

(3) Courts and commentators seem to prefer a third approach: the knock-out doctrine (or rest validity theory).

'According to the (probably) prevailing opinion, partially diverging general terms and conditions become an integral part of a contract (only) insofar as they do not contradict each other; the statutory provisions apply to the rest.'³⁶

The doctrine rests on the notions of good faith and fair play enshrined in Art. 7(1) CISG. Instead of choosing the terms of either party, a 'less plain, more attractive'³⁷ solution would seem to have the inconsistent terms knocking each other out and a set of suppletive statutory rules filling the resulting gaps. Suppletive rules are provided by the proper law of contract. Both the UNIDROIT Principles (2010³⁸ and 2016³⁹) and the Principles of European Contract Law 2000⁴⁰ have now adopted this approach. In our case, the law applicable to the contract is the CISG, therefore – should the court apply the knock-out doctrine – Art. 42 CISG will govern the buyer's claim.

Article 42 CISG applies in default of agreement between the parties as to the rule applicable to third party rights or claims based on intellectual property. In practice,

³⁵ Some courts have applied this solution in some instances, see Clout Case No. 52 [New York Federal District Court, United States, 14 April 1992], available at <www.unilex.info/case.cfm?pid=1&do=case&id=9&step=FullText>; and Clout Case No. 291 [Appellate Court Frankfurt, Germany, 23 May 1995], English translation, available at: <cisgw3.law.pace.edu/cases/950523g1.html>. Scholarly opinions are divided on the point. See, on the one hand, Charles Sukurs, 'Harmonizing the Battle of the Forms: A Comparison of the United States, Canada, and the United Nations Convention on Contracts for the International Sale of Goods' (2001) 34 *Vanderbilt Journal of Transnational Law*, 2001, at p. 1486, according to whom the last shot doctrine encourages 'perverse responses from the business community'. On the other hand, 'certainty and legal security' are regarded as powerful arguments in favour of such rule by Maria del Pilar Perales Viscasillas, "'Battle of the Forms" Under the 1980 United Nations Convention on Contracts for the International Sale of Goods: A Comparison with Section 2-207 UCC and the UNIDROIT Principles' (2001) 10 *Pace International Law Review*, at pp. 97-155.

³⁶ Bundesgerichtshof, Germany, 9 January 2002, VIII ZR 304/00, English translation available at <cisgw3.law.pace.edu/cases/020109g1.html>. Other examples of courts applying the *knock-out doctrine* include: Oberlandesgericht Düsseldorf, Germany, 25 July 2003, 17 U 22/03, English translation available at <cisgw3.law.pace.edu/cases/030725g1.html>, and Amtsgericht Kehl, Germany, 6 October 1995, 3 C 925/93, English translation available at <cisgw3.law.pace.edu/cases/951006g1.html>.

³⁷ Davies and Snyder (fn 8) at p. 133.

³⁸ Article 2.1.22 UNIDROIT Principles of International Commercial Contracts (2010).

³⁹ Article 2.1.22 UNIDROIT Principles of International Commercial Contracts (2016).

⁴⁰ See Art. 2:209(1) PECL.

the number of cases dealing with Art. 42 CISG is exiguous.⁴¹ This is certainly not because intellectual property is not a concern in the international sale of goods. Quite the contrary, merchants are so concerned about intellectual property that they prefer not to leave the matter in the hands of a gap-filler – least of all, the CISG. Instead, they derogate from the Convention by enclosing a specific warranty clause in their contract drafted according to their needs. Many scholars have tried to search into the roots of this trend.⁴² We will try to draw our own conclusions in the following paragraphs.

2.3 'Industrial or other intellectual property'

2.3.1 The territorial nature of IP rights

With Art. 42 CISG, the drafters of the Convention intended to create a special regime for third-party rights or claims based on intellectual property. The rationale for such special regime is to be found in the peculiar nature of intellectual property.

Intellectual property rights are territorial. Rooted in the Act of State Doctrine, territoriality has two dimensions – namely, an objective and a subjective dimension. International IP treaties, in fact, 'confirm that IP protection is limited territorially and personally'.⁴³ Objective territoriality means that IP rights are 'limited in their effect to the territory of the state under the laws of which they have been granted'.⁴⁴ A patent registered in State A will not be granted protection in State B unless the inventor registers it with the patent office of that State. On the other hand, subjective territoriality may entail that, at least in theory, the same subject matter be patented by two distinct persons in State A and State B, respectively. Such a situation blocks access by foreign competitors to State B's national market.⁴⁵

⁴¹ Amongst the over 3,500 cases in the Pace Law School CISG Database, only 17 entries relate to Art. 42 CISG. The most recent case dealing with Art. 42 dates back to 15 March 2015; the decision has been rendered by the Rechtbank Midden-Nederland (Netherlands); the English translation of the text is not available as of July 28, 2018.

⁴² These include: Christian Rauda and Guillaume Etier, 'Warranty for Intellectual Property Rights in the International Sale of Goods' (2000) 4 *Vindobona Journal of International Commercial Law*, at pp. 30-61 (hereinafter as 'Warranty'); Thomas M. Beline, 'Legal Defect Protected by Article 42 of the CISG: A Wolf in Sheep's Clothing' (2007) 7 *University of Pittsburgh Journal of Technology Law & Policy*, Article 6, available at: <[tlp.law.pitt.edu/ojs/index.php/tlp/article/view/34](http://law.pitt.edu/ojs/index.php/tlp/article/view/34)>; and Djakhongir Saidov, *Conformity of Goods and Documents – The Vienna Sales Convention* (2015, Oxford)(hereinafter as *Conformity of Goods and Documents*).

⁴³ Peukert (fn 2) at p. 192 (emphasis added).

⁴⁴ Kur and Dreier, *European Intellectual Property Law* (fn 3), at p. 12.

⁴⁵ Alexander Stack, *International Patent Law* (2011, Cheltenham) at p. 134. More complex scenarios are put forward in *ibid*, at pp. 180-182, footnote 56.

2.3.2 Terminology and scope

In accordance with the principle of territoriality, the extent and definition of “industrial or intellectual property” for the purposes of Art. 42 CISG are to be found in the domestic statutes of each country, which may – at least in principle – differ. This clashes with one of the pillars of the CISG enshrined in Art. 7(1), according to which the Convention has to be interpreted according to its international character and the need to promote uniformity in its application.

The solution to this contrast has to be found in those international instruments whose purpose is to harmonise IP laws worldwide. Most commentators refer to the global definition of intellectual property contained in the 1967 Convention Establishing the World Intellectual Property Organization (the WIPO Convention). The UNCITRAL Secretariat’s commentary of the CISG itself mentions such Convention,⁴⁶ whose Art. 2(viii) drags within the scope of intellectual property the rights relating to (a) literary, artistic and scientific works, (b) performances of performing artists, phonograms, and broadcasts, (c) inventions in all fields of human endeavour, (d) scientific discoveries, (e) trademarks, service marks, and commercial names and designations, (f) protection against unfair competition, and (g) all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

As the list provided by Art. 2(viii) makes clear, ‘intellectual property’ has to be used as an umbrella term which comprises industrial property – that is, the set of legal rights relating to ‘functional creations and IP used in industry’.⁴⁷ This is not to be taken for granted, especially if we keep in mind that, in the past, “intellectual property” (from French parlance, *propriété intellectuelle*) was often understood as relating only to non-functional creations in the area of literature and the arts and, thus, exclusive of industrial property.⁴⁸ Only in more recent times the term came to acquire this all-inclusive nature. The legislative history of Art. 42 CISG reflects such evolution in terminology. The earliest drafts of the provision, in fact, juxtaposed the two concepts and referred to ‘industrial or intellectual property’. During negotiations, the wording was amended to ‘industrial or other intellectual property’. The phrase ‘or other’ seems to imply that industrial property is actually part of the broader notion of intellectual property. The CISG’s draftsmen also considered the proposal that the expression ‘industrial or other intellectual property’ be replaced by a general reference to ‘intellectual property’ according to its modern commercial usage,⁴⁹ but eventually rejected it ‘in order to leave no

⁴⁶ United Nations Conference on Contracts for the International Sale of Goods, Vienna, 10 March – 11 April 1980. *Documents on the Conference and Summary Records of the Plenary Meetings and of the Meetings of the Main Committees* (A/CONF.97/19, 1991, New York) at p. 36, footnote 1.

⁴⁷ Kur and Dreier, *European Intellectual Property Law* (fn 3) at p. 4.

⁴⁸ See *ibid.*

⁴⁹ See United Nations Conference on Contracts for the International Sale of Goods, Vienna, 10 March – 11 April 1980. *Documents on the Conference and Summary Records of the Plenary Meetings and of the Meetings of the Main Committees* (A/CONF.97/19, 1991,

question as to whether third party claims based on, *inter alia*, an alleged infringement of a patent were covered by [Art. 42].⁵⁰

As we can infer from its open-ended nature, Art. 2(viii) of the WIPO Convention, defines “intellectual property” very broadly. When it comes to Art. 42 CISG, however, one commentator has maintained that such broad scope is to be restricted to just the three core areas of IP – trademarks, copyright and patents – on the basis that ‘only these rights are likely to be infringed by the sale of goods’.⁵¹ The opposite view is perhaps the most preferable one, as it is more consistent with the wording of Art. 2(viii) of the WIPO Convention, as referred to by the UNCITRAL Secretariat. The provision, in fact, makes clear that all the fruits of intellectual activity in the industrial, scientific, literary or artistic fields are to be dragged within the scope of such definition. The meaning of ‘industrial or other intellectual property rights’ in Art. 42 CISG is, therefore, to be stretched as to include ‘[a]ll rights protecting an intellectual activity which [have] a pecuniary value, which are attached to a good and which are able to infringe the use or the resale of the merchandise.’⁵² It follows that also industrial designs, trade secrets and other rights protected by the prohibition against unfair competition are to be included in the definition. With specific reference to unfair competition, the need to bring it within the scope of Art. 42 stems from the concern to protect the buyer against third-party claims grounded in the fact that the products – although not infringing upon any IP right – are so similar to those of the third party that they are likely to lead to confusion among consumers.⁵³

A related and still debated issue is whether names and personality rights should fall within the scope of Art. 42 CISG or not. The arguments marshalled in favour of both the narrow and the broad interpretation seem convincing.⁵⁴ However, the consideration that rights of publicity are not the fruit of intellectual endeavour argues for the former. This is further supported by the fact that Art. 42 CISG was meant to establish a special regime for IP rights and, according to the general principles of law, a special provision cannot be applied by analogy (*singularia non sunt extendenda*).⁵⁵ The narrow interpretation is, therefore, to be preferred: rights of publicity do not constitute intellectual property and fall within the scope of Art. 41 CISG, which covers third-party rights and claims other than those based on IP.⁵⁶

New York) at p. 36, footnote 1.

⁵⁰ *ibid.*

⁵¹ Allen M. Shinn, Jr., ‘Liabilities under Article 42 of the U.N. Convention on the International Sale of Goods’ (1993) *Minnesota Journal of Global Trade*, at pp. 121-122.

⁵² Rauda and Etier, ‘Warranty’ (fn 42) at p. 36.

⁵³ Saidov, *Conformity of Goods and Documents* (fn 42) at p. 211. See also Ingeborg Schwenzer, Pascal Hachem and Christopher Kee, *Global Contract and Sales Law*, (2012, Oxford) at §33.98.

⁵⁴ For a complete overview of these arguments, see *ibid* at pp. 212-213.

⁵⁵ See *ibid* p. 213.

⁵⁶ See in this direction: Saidov (fn 42) at p. 213; Rauda and Etier (fn 42) at pp. 34-35. In the opposite direction, see Schwenzer and Hachem (fn 53) at §33.11; and Schwenzer, ‘Article

2.4 Limitations to the seller's warranty

It would seem normal for the buyer to expect that they will be able to enjoy quiet possession of the goods they purchased. This is what implied warranties are all about. Since buyers are often presumed not to be in the position to know whether a third party could interfere with their quiet possession of the goods, warranties 'may help to mitigate asymmetric information problems by making the seller liable for third-party claims.'⁵⁷

This is not always true when it comes to *international* sales, where the parties are located in different jurisdictions. In such instances, the seller cannot reasonably be expected to have knowledge of the existence of a third-party IP right in the country of resale. The buyer, instead, 'should be better able to avoid the risks',⁵⁸ as he will generally be located in, and more familiar with, the jurisdiction where the IP claim might arise.

Article 42 of the CISG is an attempt to balance both parties' expectations: it provides for 'a general duty for the seller to deliver goods that are free of intellectual property rights and claims of third parties'⁵⁹ but makes it 'subject to significant limitations'.⁶⁰

2.4.1 Subjective limitations

The first of the two major purposes behind the adoption of Art. 42 CISG was 'to define the limits of the seller's responsibility'⁶¹ towards the buyer for third-party rights or claims based on intellectual property. This translated into the so-called subjective limitations encompassed by Art. 42(1) CISG: the seller is to be held liable only for those intellectual property rights or claims of which he 'knew or could have not been unaware' at the time of contracting.

The term 'knew' conjures the notion of actual knowledge and does not require further clarification.⁶² The wording 'could not have been unaware', on the other hand, is not crystal clear and the spectrum of scholarly opinions on how to interpret this clause is manifold. The issue is not to be overlooked: constructive knowledge is easier to establish than actual knowledge, which requires 'clear evidence to that effect'.⁶³

42', in *Commentary* (fn 23), at §5.

⁵⁷ Donald J. Smythe, 'Clearing the Clouds on the CISG's Warranty of Title' (2016) 36 *Northwestern Journal of International Law & Business* 3, at p. 533.

⁵⁸ *ibid* p. 535.

⁵⁹ Stefan Kröll, 'Article 42' in Stefan Kröll, Loukas Mistelis and Pilar Perales Viscasillas (eds), *UN Convention on Contracts for the International Sale of Goods (CISG)* (2018, Munich) at §1.

⁶⁰ *ibid*.

⁶¹ United Nations Commission for International Trade Law, *Yearbook* (Volume VIII: 1977) (fn 24) p. 40 (A/32/17).

⁶² Rauda and Etier, (fn 42) at p. 45.

⁶³ Saidov, (fn 42) at p. 219. See also Kröll (fn 59) at §26.

The doctrinal debate focuses on the question whether the provision places on the seller an affirmative duty to inquire – that is, the duty to inform himself about the existence of third-party IP rights. There are commentators who argue in the direction of a duty to inquire on the part of the seller, in the light of the principle of good faith. The argument moves from the assumption that ‘it will often be the seller who is in the better position to establish whether or not industrial and intellectual property rights may be infringed.’⁶⁴ According to this view, the seller is to be found liable if he fails to examine the relevant patent registries where a proper inquiry would have shown the existence of the third party’s patent rights. At the other side of the spectrum, there are scholars who insist on the promotion of consistency in the interpretation of the Convention.⁶⁵ The phrase ‘could have not been unaware’ is used in other provisions throughout the CISG and, ‘unlike the standard of “ought to have known”[,], should not in principle entail a duty to inquire’.⁶⁶ According to this narrow approach, the seller would be liable only for ‘maliciously keeping silence’⁶⁷ about the information in his possession.

This latter solution, however, is close to actual knowledge and deprives the buyer of any concrete chance to succeed in his claim.⁶⁸ On the other hand, as we saw earlier, the seller cannot always be presumed to be in such a better position when dealing with a foreign buyer. In the light of the above, some authors have found an intermediate solution by reading the phrase ‘could not have been unaware’ in conjunction with its ‘twin’ contained in Art. 42(2)(a) with respect to the buyer. According to this opinion,

‘[t]he most logical interpretation is that “could not have been unaware” places a duty on *both seller and buyer* not to be negligent about information that is reasonably at hand at the time they form a contract, especially if the other side is not likely to have the same information.’⁶⁹

⁶⁴ Schwenger, Hachem and Kee (fn 53) at §33.22. See also Rauda and Etier (fn 42) at p. 44; and Fritz Enderlein and Dietrich Maskow, *International Sales Law*, (1992, Dobbs Ferry, New York) at p. 168. This view is supported by the *Commentary on the Draft Convention on Contracts for the International Sale of Goods prepared by the Secretariat (A/CONF. 97/5)*, as far as published rights are concerned, and by Peter Schlechtriem, *Uniform Sales Law - The UN-Convention on Contracts for the International Sale of Goods*, (1986, Vienna) at p. 74.

⁶⁵ Saidov (fn 42) at p. 220.

⁶⁶ Kröll (fn 59) at §28. See also Honnold (fn 15) at §270; and Shinn (fn 50) at p. 124

⁶⁷ Ulrich Huber, ‘Der UNCITRAL-Entwurf eines Übereinkommens für internationale Warenkaufverträge’ (1979) 43 *Rabels Zeitschrift*, at p. 503, *apud* Enderlein and Maskow (fn 63) at p. 168. For critical remarks on Huber’s narrow approach, see also Schlechtriem, *Uniform Sales Law* (fn 17) at p. 284.

⁶⁸ See Schwenger, ‘Article 42’ (fn 56) at §15.

⁶⁹ Shinn (fn 51), at pp. 126-127 (emphasis added). See also Alastair Mullis, ‘Third Party Rights’ in Ulrich Huber, Alastair Mullis, *The CISG: A New Textbook for Students and Practitioners* (2007, München) at p. 176. This is also reflected in a leading case on Art. 35 CISG, which may nonetheless provide some guidance for the interpretation of Art. 42: Clout Case No. 123 [Federal Supreme Court, Germany, 8 March 1995], available at

As we shall see, the seller's liability is excluded if the buyer knew or 'could have not been unaware' of the existence of third-party IP rights. Although this is not uncontroversial, the two wordings seem to bear the same meaning:⁷⁰ potentially, both seller and buyer have a duty to inform themselves about IP rights; in practice, it is suggested, this duty should be allocated between them on a case-by-case basis. The factors to be taken into account in performing such allocation are dealt with at below Part 2.5.1.

2.4.2 Objective limitations

The second purpose underlying Art. 42 CISG is to 'indicate which industrial or intellectual property laws [are] relevant'⁷¹ in order to determine the liability of the seller. In the drafters' perspective, this was to be achieved by means of the two objective (or territorial) limitations contained in Art. 42(1)(a) and (b), due regard being had of the territorial character of IP rights.⁷² It follows that the seller's knowledge requirement is limited to the laws of either (a) 'the State where the goods will be resold or otherwise used', if contemplated by the parties, or (b) 'the State where the buyer has its place of business'.

These provisions raise several questions. First off, we must ask ourselves what is meant by 'State'. On the one hand, Professor Enderlein relies on the argument that the word 'State' is capitalized and equates it to the notion of nation-state.⁷³ On the other hand, a separate opinion objects that 'such narrow definition is unsatisfactory [...] because not all intellectual property law is national law.'⁷⁴ Intellectual property law, it is pointed out, can also be found in either subnational and supranational law. Accordingly, nation-states' territorial subunits should definitely fall within the definition of 'State'.⁷⁵ The same cannot be said of supranational organizations whose law, in the majority of cases, will apply only to the extent to which it is implemented by Member States or otherwise incorporated into their national law.⁷⁶ EU Regulations on trademarks and industrial designs constitute a separate case as they are, by definition, directly applicable in the Member State's territories and establish unitary IP rights. It follows that the European Union is to be brought within the definition of 'State' if the IP right at issue is a unitary trademark or industrial design.

A related concern is whether the term 'law' refers just to the substantive body of

cisgw3.law.pace.edu/cases/950308g3.html. For critical remarks on such decision see Peter Schlechtriem, 'Uniform Sales Law in the Decisions of the Bundesgerichtshof' in *50 Years of the Bundesgerichtshof: A Celebration Anthology from the Academic Community* (2000) English translation by Todd J. Fox.

⁷⁰ Shinn (fn 51) at p. 125.

⁷¹ United Nations Commission for International Trade Law, *Yearbook* (Volume VIII: 1977) (fn 24) at p. 40 (A/32/17).

⁷² Rauda and Etier (fn 42) at p. 50.

⁷³ Enderlein and Maskow (fn 64) at p. 169.

⁷⁴ Shinn (fn 51) at p. 128.

⁷⁵ See *ibid* at p. 129.

⁷⁶ See *ibid* at p. 130.

law of the State or is inclusive of its rules of private international law, according to the *renvoi* doctrine. Adopting the latter approach, as Professor Honnold seems to suggest,⁷⁷ would be inconsistent with the territoriality of IP rights. The same question arises with respect to mutual agreements entered into with another State, according to which an IP right registered in that State is recognized and protected in the relevant State. Whilst this would be technically possible – as is well known, international treaties become part and parcel of national law upon transposition – it would undermine the territorial restriction on the seller's liability.⁷⁸ It has been suggested, therefore, that the provision be construed as requiring that 'the intellectual property right is actually registered in the relevant State'.⁷⁹ For those IP rights whose existence does not depend on registration – copyright, for example – there is no problem at all: the knowledge requirement is eased by the fact that 'the state the goods are destined for is party to a relevant international convention [...] or is a member of the World Trade Organization.'⁸⁰

As for the phrase 'contemplated by the parties at the time of the conclusion of the contract', Professor Schlechtriem maintains that 'the seller's obligation in this case depends on where and how the goods are to be used *according to the contract*'.⁸¹ It is controversial whether the parties can contemplate more than one State. The minority opinion relies on the use of the singular 'State' to argue that the seller's warranty is limited to only one country.⁸² The linguistic argument is indeed appealing, as it is 'consistent with the drafters' concern of extending the requisite knowledge of the seller to indefinite jurisdictions'.⁸³ Given the doctrine of party autonomy, however, such interpretation seems quite unrealistic. Hence, if the parties contemplate more than one country in their contract, it is suggested that the seller's liability extends to cover all the contemplated States. This broader view is supported by most commentators⁸⁴ and by at least one court.⁸⁵

The relevant time for the parties to contemplate the State(s) of use or resale is that of the conclusion of the contract. If by the time the contract is concluded there is no such contemplation, Art. 42(1)(b) CISG will apply by default. The seller's knowledge requirement will be limited to IP rights arising under the law of the State where the buyer has his place of business – that is, where he will presumably

⁷⁷ Honnold (fn 16) at §267. For critical remarks on Honnold's opinion see Enderlein and Maskow (fn 64) at p. 169.

⁷⁸ See Schwenger and Hachem (fn 53) at §33.20, but see Saidov (fn 42) at p. 224.

⁷⁹ *ibid.*

⁸⁰ Ruth M. Janal, 'The Seller's Responsibility for Third Party Intellectual Property Rights under the Vienna Sales Convention' in Camilla B. Andersen, Ulrich G. Schroeter (eds), *Sharing International Commercial Law across National Boundaries: Festschrift for Albert H. Kritzer on the Occasion of his Eightieth Birthday* (2008, London) at p. 125.

⁸¹ Schlechtriem, *Uniform Sales Law* (fn 17) at p. 74 (emphasis original).

⁸² See Enderlein and Maskow (fn 64) at p. 169, and, apparently, Shinn (fn 51) at p. 128.

⁸³ Beline (fn 42).

⁸⁴ See: Schlechtriem, *Uniform Sales Law* (fn 17) at p. 74; Rauda and Etier (fn 42) at p. 53; and Janal (fn 80) at pp. 203, 220.

⁸⁵ Clout Case No. 753 [Supreme Court, Austria, 12 September 2006], English translation available at <cisgw3.law.pace.edu/cases/060912a3.html>.

resell or use the goods. Any subsequent change in the place of destination should have no effect on the seller's warranty, 'even if the seller actually becomes aware of that fact'.⁸⁶

2.5 Exclusions of the seller's warranty

Even where both the knowledge and the territorial requirements contained in Art. 42(1) CISG are met, the seller's liability is excluded in two cases provided by Art. 42(2). Namely, the seller will not be held liable (a) if the buyer 'knew or could not have been unaware' of the IP rights at the time of contracting, or (b) if the infringement results from the seller's compliance with 'technical drawings, designs, formulae or other such specifications' provided by the buyer themselves. The rationale for these exclusions relies on the assumption that in such cases, 'the buyer's expectations to receive goods which are free of third party intellectual property rights [...] [do] not merit protection'.⁸⁷

2.5.1 Knowledge of the buyer

As with Art. 42(1) CISG, the doctrinal debate has focused on the extent of the clause 'could not have been unaware'. The question is one – that is, whether the phrase bears the same meaning for both buyer and seller. The answers are many. On the one hand, some scholars have pointed out that a situation in which both parties are placed under the same duty to inquire would be highly paradoxical: the two obligations would cancel each other out and the seller would hardly ever be found liable.⁸⁸ According to this opinion, therefore, the two standards should be interpreted differently – the seller having an *active* duty to inquire and the buyer being subject only to a *passive* knowledge requirement. The latter requirement is close to actual knowledge: 'a buyer may not ignore intellectual property rights which are well known',⁸⁹ but is not under a duty to research as he will often not be aware of the composition or construction of the goods.⁹⁰ The buyer will be under a duty to research only if he assumes such responsibility in the contract.⁹¹ Notably, Professor Honnold maintains that such restrictions are of little importance⁹² as paragraph (1) of Art. 42 CISG already places the duty to investigate on the seller.

Other scholars take the opposite view that, at least in principle, the use of the same wording suggests the meaning be the same in both paragraphs. As anticipated at above Part 2.4.1, there are some commentators in favour of recognising the same duty to inquire on both parties.⁹³ This duty is then to be allocated between the

⁸⁶ Schwenzer, 'Article 42' (fn 56) at §11.

⁸⁷ Kröll (fn 59) at §34.

⁸⁸ Rauda and Etier (fn 42) at p. 56.

⁸⁹ *ibid* at p. 57.

⁹⁰ Schwenzer 'Article 42' (fn 56) at §18.

⁹¹ See in this direction: *ibid*, at pp. 669-670, §18; Enderlein and Maskow (fn 64) at p. 170.

⁹² Honnold (fn 16) at §270.

⁹³ See Shinn (fn 51) at pp. 126-127. See also Anthony J. Van Duzer, 'A Seller's Responsibility for Third Party Intellectual Property Claims: Are the UN Sales Convention Rules Better?' (2001) 4 *Canadian International Lawyer*, at p. 187.

parties on a case-by-case basis, due regard being had to all the circumstances. The reason why this opinion seems the most preferable is to be traced back to the notions of asymmetric information and good faith. It is the party who is in the better position to learn about the third-party IP rights in the State of use (or resale) who should be under a duty to inquire and inform the other party. In international sales, the seller cannot always be presumed to be in such better position (see above Part 2.4). In what circumstances should the duty shift to the buyer? A survey of the scholarly writings and case law on this matter allows us to track down a set of criteria. Several courts in France have recognized the buyer's *professional capacity* as one of the factors triggering a higher knowledge standard on the part of the buyer.⁹⁴ If the contemplated State is the State in which the buyer operates as a professional, then it is not unreasonable for them to know the existence of third-party IP rights. If the contemplated State is outside the buyer's territory, then the professional capacity criteria should not apply unless the buyer already operates on a transnational basis. An element relaxing the seller's responsibility to inquire, on the other hand, is also his *status*:

‘Sellers who are at the same time the producers of the goods [...] are normally required to investigate [...] Comparable economic considerations may limit the obligation to inquire for sellers who are mere intermediaries.’⁹⁵

The allocation of the duty to inquire may also depend on the *type of product and IP right attached to it*: if the IP-protected material can be spotted by simply looking at the product, then there is no reason why the buyer should not research any possible IP rights in the State of use. On the contrary, if the product is such that the buyer is not aware of its components, the seller should be deemed to be in the best position to inquire. On a final note, it may be useful to see which party initiated the negotiations: if it is the buyer to send the first offer, then – if he is a professional and the IP-protected material is self-evident – he should be burdened with the duty to investigate.

2.5.2 Technical drawings, designs and *formulae* provided by the buyer

Another factor to be taken into consideration in the allocation of the duty to inquire between the parties is the provision of instructions on the part of the buyer. It has been suggested, in fact, ‘the seller who has complied with the buyer's specifications has no obligation to make inquiries’.⁹⁶ The buyer providing specifications, on the other hand, could be expected to research the relevant registries in the State of use or resale to make sure that the final product will not infringe upon a third-party IP right.

⁹⁴ See Clout Case No. 491 [Court of Appeal of Colmar, France, 13 November 2002], English translation available at <cisgw3.law.pace.edu/cases/021113f1.html>; Clout Case No. 479 [Court of Cassation, France, 19 March 2002] English translation available at: <cisgw3.law.pace.edu/cases/020319f1.html>.

⁹⁵ Kröll (fn 59) at §30-32. See also in that direction Saidov (fn 42) at p. 221.

⁹⁶ Rauda and Etier (fn 42) at p. 59.

Article 42(2)(b) CISG exempts the seller from liability if they acted in compliance with technical drawings, designs, *formulae* or other such specifications furnished by the buyer. The rationale for such exemption is to be found in the principle enshrined in Art. 80 CISG, according to which ‘[a] party may not rely on a failure of the other party to perform, to the extent that such failure was caused by the first party’s act or omission.’

A technical drawing is generally very specific, whereas designs are generally less detailed.⁹⁷ The question that has divided commentators concerns the level of precision needed for ‘such other specifications’ to release the seller from his obligation. The broader view is that ‘the other specifications show an analogous precision to the term [...] expressing the less exactitude, namely the “design”’.⁹⁸ The seller would be accordingly exempted even if he has a margin of execution and acts within such margin. The more narrow interpretation, on the other hand, requires the other specification be as detailed as a technical drawing.⁹⁹ A seller acting within his margin of execution will not be released from liability, especially if there exists a non-infringing alternative.¹⁰⁰ This solution has apparently found the support of at least one court¹⁰¹ and seems indeed the most preferable one – at least when the seller has the resources to investigate which of the alternatives is not infringing.

The seller may know or become aware that compliance with the buyer’s instructions will lead to the infringement of a third-party IP right in the State of use or resale. Commentators seem to concur that if the seller fails to inform the other party pursuant to the principle of good faith, he will not be able to rely on Art. 42(2)(b) CISG to avoid liability.¹⁰²

3 The CISG Solution

As we saw at above Parts 2.4.1 and 2.5.1, commentators disagree on whether the meaning of ‘knew or could not have been unaware’ is the same with respect to both the buyer and the seller. In accordance with the notion of asymmetric information, we may argue that the provision should be construed to place the

⁹⁷ *ibid* at p. 58.

⁹⁸ *ibid*.

⁹⁹ See Martin Prager, *Verkäuferhaftung und ausländische gewerbliche Schutzrechte. Die Haftung des Verkäufers beweglicher Sachen für deren Freiheit von gewerblichen Schutzrechten oder Urheberrechten nach dem UN-Kaufrechtsübereinkommen vom 11. April 1980* (1987, Pfaffenweiler) at p. 177. Similarly: Schwenger ‘Article 42’ (fn 56) at §21; and Peter Schlechtriem, ‘The Seller’s Obligations Under the United Nations Convention on Contracts for the International Sale of Goods’ in Nina M. Galston, Hans Smit (eds), *International Sales: The United Nations Convention on Contracts for the International Sale of Goods* (1984, Matthew Bender) at §6.03 6-34.

¹⁰⁰ See: Peter Schlechtriem, ‘Seller’s Obligations’ (fn 99) at §6.03 6-34; and Janal (fn 80) at p. 221.

¹⁰¹ Supreme Court, Israel, 22 August 1993, No. 3912/90. The court applied ULIS to the case but extensively referred to the provisions of the CISG.

¹⁰² See Schwenger ‘Article 42’ (fn 56) at §22; Rauda and Etier (fn 42) at p. 58; and Saidov (fn 42) at pp. 229-230.

same duty to inquire on both parties. Such duty is then to be allocated to either one of the parties on a case-by-case basis, taking several factual situations into account. The lack of case law on the issue, however, is of no help. The wording of Art. 42 CISG is still unclear and a court called to adjudicate a dispute arising from a breach of warranty against infringement could interpret the provision as it sees fit. Such situation generates uncertainty as to whether the knowledge requirement is satisfied or not. Moreover, the allocation of the duty to inquire is performed exclusively by courts *after* a complaint for breach of warranty is brought before them. At that point in time the alleged breach already took place and it is just a matter of allocating liability between the parties. It is our opinion that the parties to a contract of sale would benefit from knowing beforehand which of them is supposed to inquire into the existence of an IP right in the country of use or resale.

Many scholars suggest that parties should contract out of Art. 42 CISG and negotiate their own warranty clause to avoid unpredictability.¹⁰³ We do not agree with such approach: if we want the CISG to succeed, we should encourage its application in order to achieve its improvement.¹⁰⁴ Moreover, as the 'knock-out rule' becomes the most feasible answer to the 'battle of the forms' issue, there are increasingly more chances that Art. 42 CISG will be applied to fill a gap (see above Part 2.2).¹⁰⁵ Therefore, we may as well have this provision functioning properly. For such a purpose, it is our opinion that the Contracting States to the CISG should come to an agreement pursuant to Art. 31(3)(a) of the Vienna Convention on the Law of Treaties on the meaning of the phrase 'knew or could not have been unaware' contained in Art. 42 CISG. Such "authentic" interpretation should contain a set of parameters according to which the seller and buyer can allocate the duty to inquire between themselves. As we saw above Part 2.5, these parameters could include, among others, the type of product and IP right concerned in the sale, the status and/or the professional capacity of both parties. This opens the door to the eventuality that both parties are responsible for inquiring into the existence of an IP right at the same time. In such instances, we should reconsider one of the most criticised decisions in the CISG database,¹⁰⁶ according to which liability for damages could be shared by the parties on a 50-50 basis. This is also true in the reverse situation, in which none of the parties could be expected to be aware of the infringement.¹⁰⁷ ■

¹⁰³ See Beline (fn 42).

¹⁰⁴ See Saidov (fn 42) at p. 233. See also Rauda and Etier (fn 42) at p. 61 for a new version of Art. 42 CISG *de lege ferenda*.

¹⁰⁵ In addition, as put by Kröll (fn 59) at §2, '[w]ith the advent of the "information age", the "digital revolution" and the ever-growing relevance of intellectual property rights it can be assumed that the provision will gain even greater practical importance'. See also Smythe (fn 57) at p. 511.

¹⁰⁶ Beit HaMishpat HaElyon, Israel, 22 August 1993, 3912/90, English translation available at: <cisgw3.law.pace.edu/cases/930822i5.html>. The court applied the ULIS but referred to the CISG by analogy. See also Thomas Neumann, *The Duty to Cooperate in International Sales* (2012, Munich) at pp. 100-102.

¹⁰⁷ See Neumann (fn 106) at p. 101.