INDIAN JOURNAL OF LEGAL REVIEW

VOLUME 3 AND ISSUE 1 OF 2023

INSTITUTE OF LEGAL EDUCATION

Indian Journal of Legal Review [ISSN - 2583-2344]

(Free and Open Access Journal)

Journal's Home Page – https://ijlr.iledu.in/

Journal's Editorial Page - https://ijlr.iledu.in/editorial-board/

Volume 3 and Issue 1 of 2022 (Access Full Issue on - https://ijlr.iledu.in/volume-3-and-issue-1-of-2023/)

Publisher

Prasanna S,

Chairman of Institute of Legal Education (Established by I.L.E. Educational Trust)

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 94896 71437 - info@iledu.in / Chairman@iledu.in

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]

Volume 3 and Issue 1 of 2023

ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8

Published by

Institute of Legal Education

https://iledu.in

"Liabilities Under Article 42 of the UN Convention on the International Sale of Goods"

Authors- Prakhar Gupta & Maansi Bhavnani, Students at NMIMS Kirit P. Mehta School of Law

BEST CITATION - Prakhar Gupta & Maansi Bhavnani, "Liabilities Under Article 42 of the UN Convention on the International Sale of Goods", INDIAN JOURNAL OF LEGAL REVIEW (IJLR), 3 (1) OF 2023, PG. 807-815, ISSN - 2583-2344.

ABSTRACT

As a result of technological progress, there has been a greater awareness of the relationship between intellectual property rights (IPRs), which are intangible property rights, and tangible objects. As a result of this interplay, an increasing number of items that are either subject to IPRs in their whole or include an IP-protected component have been subject to sales agreements. Third-party IPRs over the items are more likely to be infringed when the commodities circulate throughout the world. This risk of violation also raises the likelihood that the buyer will be prevented from reselling or utilising the products in issue if IP law remedies are invoked. This research is concerned with how third-party IPRs impact the sale of products, and it seeks to conduct an examination of the rules that establish the seller's obligation when third-party IPRs emerge regarding goods sold under the CISG while analysing the various treaties and conventions affecting the sale of goods in relation to IPR infringement over cross-border boundaries.

Key words: Intellectual Property Rights, Infringement, Third Party, Contract of Sale, International Trade, Warranties.

I. INTRODUCTION

An agreement concerning the sale of goods usually consists of two parties – the seller, and the buyer – who enter into a contract with the intention of it governing their mutual obligations under the same. However, when a third party to the contract holds an intellectual or industrial property claim or right over the goods which are subject to the sale contract, a problem arises in case this third-party right holder wishes to enforce their exclusive rights. This situation stands even more complicated when the sale is of an international nature and falls within the scope of Article 42 of the United Nations Convention on the International Sale of Goods[2322] [*CISG*]. In this case, in the absence of a specific clause dealing with the same, the liability of the parties stands governed by Art. 42 of the CISG.

Integral challenges will necessarily arise with regard to the seller's warranty of title under Art. 42 of the CISG, and the courts or tribunals will be tasked with interpreting the scope of the Article. This paper will therefore focus on the issues that could formulate when parties to an international sales contract rely on the CISG's substantive law, in case the goods sold are encumbered with third-party intellectual or industrial property [*IIP*] rights.

II. Research Objectives

- To analyse the position of intellectual property rights in context of international trade law and the need for a comprehensive framework for the same.
- To understand the legislative history behind Article 42 of the CISG and its evolution to what it is today.
- To draw differences between the liabilities of the seller and the buyer under Art. 42 and circumstances on which the determination of liability of the seller or buyer is dependent upon under Art. 42.
- To analyse whether Article 42 is a coherent substantive law when it comes to regulation of third-party IIP rights in international sales contracts.

[2322] United Nations Convention on the International Sale of Goods, (Vienna, Austria, 11 April 1980), *CISG, UN CISG.*

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]

Volume 3 and Issue 1 of 2023

ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8

Published by

Institute of Legal Education

https://iledu.in

III. ANALYSIS

III.A International Trade and Intellectual Property

When an international sale of goods involves a subject matter, which is encumbered by third party IIP rights, the holder of such a right, who is not necessarily a party to the international sales contract, will want to enforce their exclusive rights over such goods. In doing so, a holder of such rights interjects in the sales transaction, and what was once a bilateral obligation, becomes a complex tripartite relationship which will involve both substantive and procedural questions of law. This relationship becomes even more complex when the sale of goods is of an international nature.[2323]

As per the territoriality principle which is central to intellectual property, intellectual property rights which arise in a particular country have legal holding and consequences in that country only.[2324] This means that in absence of any parallel rights in another country, any individual or entity could legally manufacture and produce goods which would in other circumstances infringe upon IP rights.[2325] Potential disputes can arise when a seller sells a good encumbered by IIP rights to a buyer located in aa protecting country, in which case an infringement of a third party IIP right could take place and the right holder is entitled to enforcement of these rights through various legal instruments.

Constant global developments and innovations in context of the overlap of international trade and intellectual property have become even more relevant in light of the race to create and manufacture vaccines to battle the COVID-19 pandemic, and require immediate attention in order to accelerate any disputes arising out of these matters.[2326] The recognition of the significance of formulating an international trade framework with special focus in intellectual property was only realised in 1994, and the Agreement on the Trade Related Aspects of Intellectual Property Rights [*TRIPS Agreement*] was formulated as a result. The TRIPS Agreement included IP rights within an international trade framework for the first time, with the intention to ensure that "*measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.*"[2327]

III.B The Contract of Sale

The parties during their negotiations will generally agree upon various details of the transaction – such as the price of goods, quantity, time, and place of performance of contract, consequences of breach, etc. In addition to these provisions, the parties also generally discuss liabilities regarding certain specifics of the goods itself, and these are widely referred to as *warranties.* A warranty is an '*express or implied promise that something in furtherance of the contract is guaranteed by one of the contracting.*'[2328]

When a warranty is expressly stated in the contract of sale, it is an express warranty.[2329] The goods must be conforming to the specific characteristics that the parties have agreed upon, and this is reflected in Article 35(1) of the CISG.

A warranty is implied when it is '*an obligation imposed by law*'[2330], without finding a direct mention of it in the international sales contract. The CISG is known to pre-empt four kinds of implied warranties:

1. Warranty of Merchantability
2. Warranty of Fitness
3. Warranty of Actual Title
4. Warranty Against the Infringement of Third-Party Intellectual Property Rights.

[2323] For the purposes of this paper, a sales contract can be categorized as an international sale when it triggers the application of the Vienna Convention on Contracts for the International Sale of Goods, 1980.

[2324] 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.

[2325] *Ibid.*

[2326] Yuri, Svejnar, Terrell, *Globalization and Innovation in Emerging Markets,* NBER WORKING PAPER NO. 14481, 2020, at p. 2

[2327] See TRIPS Agreement, Recital 1.

[2328] Garner and Black, 'Waranty', def. 2, *Black's Law Dictionary* (2020, St. Paul) at p.1281.

[2329] Julian McDonnel, *Commercial and Consumer Warranties,* (REV. ED, 2001, MATTHEW BENDER), ss. 1.02.

[2330] *Supra* Note 8, at 1822.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]
Volume 3 and Issue 1 of 2023
ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8
Published by
Institute of Legal Education
https://iledu.in

The main focus of this paper is the last warranty, which requires the goods to be unencumbered from any third-party rights or claims.

III.C Legislative History of Article 42 of the CISG

III.C.1 *Before the CISG: Art. 52 of the Uniform Law on the International Sale of Goods*

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 very first example of merchant law, which was conceived by the Institute for the Unification of Private Law [*UNIDROIT*] in the latter half of the 1920s.

Article 52 of the ULIS regulated third-party claims or rights in international sale of goods transactions.[2331] The Article however, did not make an overt reference to rights or claims arising out of third-party intellectual property rights. However, in accordance with an authoritative opinion on Art. 52, the scope of the Article was limited to *ownership* claims by third parties.[2332] This Articles however was not designed to create any sort of implied warranty as against any third party IIP infringement as explained in the previous section. Third-party IIP rights under the ULIS were treated as 'defects in title infringing upon the *use* of purchased goods.'[2333] The conformity of goods under the ULIS however, was dependent upon the 'condition of the goods at the time when the risk passes'[2334] In modern commercial transactions, risk passes form one party to another at various junctures, as and when it is prescribed in the contract, and therefore this position could lead to whimsical results.

III.C.2 Evolution *of the ULIS into the CISG: UNCITRAL Negotiations*

The framework formulated by the ULFC and ULIS were not entirely successful, as they attempted to enforce an independent interpretation of their provisions without consideration of domestic law and conflict of law rules.[2335] A solution which took these considerations into the picture while forming a coherent international sales law was required. The CISG was the first instrument to attempt to do so, under the auspice of the United Nations Commission on International Trade Law [*UNCITRAL*].

What was contained in Article 52 of the ULIS is not 'much more clearly' stated in Article 41 of the CISG.[2336] Article 42 also expressly excludes intellectual property rights form its ambit and directs that they are to be dealt with under Article 42 instead. What lead the drafters to create an article specifically to deal with the seller's liability for infringing intellectual property rights, finds mention in the *travaux preparators* of the UNCITRAL on Arts. 41 and 42.

III.D Article 42 – 'Industrial or Other Intellectual Property'

III.D.1 *IIP Rights and the Principle of Territoriality*

What prompted the drafters of the CISG to create a new provision exclusively dealing with third-party rights or claims arising out of industrial or intellectual property was the unique nature of such IIP rights in the first place.

IP rights are territorial in nature, and the territoriality doctrine has two dimensions – subjective, and objective. International Intellectual Property Treaties and Conventions as a matter of fact, '*confirm* that IP protection is limited territorially and personally'.

The objective dimension of territoriality prescribes that intellectual property rights are 'limited in their effect to the territory of the state under the laws of which they have been granted'. For example, a patent registered in one state will not be granted protection in another state, unless it has been registered in the other state as well. The subjective dimension of territoriality prescribes that

[2331] Draft ULIS, Art. 52.
[2332] John O. Honnold, *Uniform Law for International Sales Under the 1980 United Nations Convention,* THE HAGUE, 3RD ED., 1999, at ss.268 (*Hereinafter, 'Uniform Law'*).
[2333] Peter Schlechtriem, *Uniform Sales Law – the UN Convention on Contracts for the International Sale of Goods* (1986, MANZ, VIENNA) pp.72.
[2334] Draft ULIS, Art. 35.
[2335] Filip De Ly, *Sources of International Sales Law: An Eclectic Model,* JOURNAL OF COMMERCE AND LAW, Vol. 1, p.3.
[2336] Ingeborg Schwenzer, *Schlechtriem & Schwenzer: Commentary on the UN Convention on the International Sale of Goods (CISG)* (2010, OXFORD) at §1 (hereinafter as Commentary).

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]

Volume 3 and Issue 1 of 2023

ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8

Published by

Institute of Legal Education

https://iledu.in

identical subject matter can be patented by two different individuals in different states, and this restricts foreign access by competitors in a state's national market.[2337]

III.D.2 *Scope and Terminology*

In consonance with the principle of territoriality, the definition of 'industrial or intellectual property' in context of Art. 42 of the CISG have to be referred to as per the domestic law of the countries involved, which are generally different. This is in contradiction with Art. 7(1) of the CISG which states that the CISG must be interpreted in accordance with its international character as well as the need to ensure that its application is uniform in nature.

The key to this problem can be found in international IP instruments which aim to harmonize and create a coherent international IP framework worldwide. Various experts usually refer to the definition mentioned in Article 2(viii) of the 1967 Convention Establishing the World Intellectual Property Organization [*WIPO Convention*][2338], and the commentary of the UNCITRAL's Secretariat[2339] mentions this definition as well. It specifies the scope of IP rights as extending to and inclusive of:

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 can be seen from the abovementioned definition, the WIPO Convention defines intellectual property widely. However, it is the opinion of certain experts that the scope of IP rights when it comes to Art. 42 of the CISG should be limited to the three central IP rights, i.e. – patent, trademark, and copyright, as according to them, only the aforementioned rights can be violated in a sale of goods transaction.[2340] a contrary opinion, and the most widely accepted one, is that the wordings of the aforementioned Article 2(viii) make it abundantly clear that all the considerations for intellectual activity in literary, artistic, industrial, scientific fields, are inclusive in the definition itself. The definition of 'industrial or intellectual property rights' under Art. 42 of the CISG is then slated to include *'all 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.'* [2341] Therefore, it becomes clear that not only patents, trademarks, and copyright, but also allied intellectual property rights such as trade secrets, industrial designs, protection against unfair competition, etc., will be inclusive in the assessment of conformity of goods under Article 42 of the CISG. In the specific context of unfair competition, it is argued that it is essential to bring it under the scope of Art. 42, as the buyer needs to be protected against third-party claims on the basis of the product in question being so similar to the third-party's products, that it is probable for them to confuse customers, even without the specific infringement of an IP right.[2342]

[2337] Alexander Stack, *International Patent Law,* (2011, CHELTENHAM) at p.134.

[2338] Convention Establishing the World Intellectual Property Organization (Stockholm, July 14, 1967, amended on September 28, 1979), *WIPO Convention.*

[2339] 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.

[2340] Allen Shinn Jr., *Liabilities under Article 42 of the U.N. Convention on the International Sale of Goods,* MINNESOTA JOURNAL OF GLOBAL TRADE, 1993, pp.121-122

[2341] Christian Rauda and Guilliame Etier, '*Warranty for Intellectual Property Rights in the International Sale of Goods'* (2000), 4 VINDOBONA JOURNAL OF INTERNATIONAL COMMERCIAL LAW, at pp. 30-61.

[2342] Ingeborg Schwenzer, *Global Contracts and Sales Law,* (2012 OXFORD), ss.33.98.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]

Volume 3 and Issue 1 of 2023

ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8

Published by

Institute of Legal Education

https://iledu.in

III.E Seller's Warranty and its Limitations – Article 42(1)

It seems logical for the buyer to have a reasonable expectation that they will enjoy uninterrupted possession of the goods purchased through an international sales contract. This is where implied warranties are especially relevant, as they will '*help mitigate asymmetric information problems by making the seller liable for third-party claims*'[2343] given that buyers are not expected to be aware of whether or not a third-party could interfere with the enjoyment of the goods they purchased.

However, the seller's obligation in international sales contracts in this regard can be unjustified, as it puts a significant responsibility on the seller under the CISG to be aware of IP rights in various different jurisdictions. The seller cannot logically and reasonably be expected to be aware of all such third party IIP rights. It is then, in the opinion of some experts, the buyer who '*Should be better able to avoid the risks*'[2344], as they are better suited to be aware of any existing third party IIP rights in their jurisdiction. Therefore, Article 42 of the CISG can be viewed as a balancing exercise of the expectations of the buyers and sellers: it provides for a '*general duty of for the seller to deliver goods that are free of intellectual property rights of third parties*'[2345], however, it makes this '*subject to significant limitations*.[2346]

III.E.1 *Subjective Limitations*

One of the two central aims of the CISG was '*to define the limits of the seller's responsibility*'[2347] to the buyer in case of a third-party claim or right raised because of infringement of intellectual property. This position is reflected in Art. 42(1) of the CISG, which states that the liability of the seller under the Article only extends to those IP rights or claims of which they '*knew, or could not have been unaware*' at the time of entering into contract.

The first part of this obligation constitutes actual knowledge which is clear from the usage of the word '*knew*'. The second part, however, which uses the words '*could not have been unaware*', opens doors for differences in interpretation. The question here is whether these words place an obligation on the seller to conduct due diligence before entering into an international sales contract. Certain experts argue that the sellers should undertake the duty to inquire and conduct due diligence based on the principle of good faith. This position is based on 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.*' [2348] If this position is to be followed, the seller would be held liable for failure to examine possible third-party rights on the goods which form the subject matter of the international sales contract, if it ultimately leads to show that such rights did in fact exist, and could be discovered by an inquiry. On the other hand, certain experts argue that there shall be consistency in application of the provisions of the CISG. The words '*could not have been unaware*' find mention in other Articles of the CISG as well, and '*unlike the standard of "ought to have known" should not in principle entail a duty to inquire.*'[2349] According to this view, the seller would only be liable if it is proved that they were '*maliciously keeping silence*'[2350] about any third-party IP rights which they were aware of at the time of entering into contract.

The second interpretation is actually closer in its application to actual knowledge, and makes it less likely for a buyer to succeed in a claim against the seller under Article 42 of the CISG. On the contrary, it cannot always be assumed that the seller is in a better position to have the resources and knowledge regarding third-party IP rights in a different jurisdiction. To find a

[2343] Donald Smythe, *Clearing the Clouds on CISG's Warranty of Title,* 36 NORTHWESTERN JOURNAL OF INTERNATIONAL LAW & BUSINESS 3, p.533.
[2344] *Ibid,* p.535.
[2345] Stefan Kroll, '*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.
[2346] *Ibid.*
[2347] United Nations Commission for International Trade Law, *Yearbook* (VOLUME VIII: 1977), p. 40 (A/32/17).
[2348] Peter Schlechtriem, *Uniform Sales Law - The UN-Convention on Contracts for the International Sale of Goods,* (1986, VIENNA) p. 74.
[2349] *Supra* Note 28.
[2350] Ulrich Huber, '*Der UNCITRAL-Entwurf eines Übereinkommens für internationale Warenkaufverträge*' (1979) 43 RABELS ZEITSCHRIFT, at p. 503

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]
Volume 3 and Issue 1 of 2023
ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8
Published by
Institute of Legal Education
https://iledu.in

middle ground between these dual obligations, some scholars have suggested a middle ground. They opine that:

'the 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.' [2351]

As explained below, the seller is absolved of their liability if it can be shown that the buyer '*knew or could not have been unaware*' of any third-party IP rights. These wordings in both parts of Art. 42 have the same meaning, and this leads to the conclusion that both the buyer and the seller have a responsibility to inquire about third-party IP rights with regard to the subject matter of the international sales contract. In practicality however, it is suggested that the burden of this liability under Art. 42 of the CISG must be decided based on the facts and circumstances of each individual case.

III.E.2 *Objective Limitations*

The second aim of Article 42 of the CISG is to '*indicate which industrial or intellectual property laws are relevant*'[2352] to conclusively examine the extent of the liability of the seller. According to the drafters of the CISG, this was to be determined by two objective factors:

1. That the seller's requirement of knowledge is to be limited to the laws of the 'State where the goods will be resold or otherwise used', or
2. The State where the buyer has its place of business.

A significant concern in this regard is the definition of the term 'law'. There is no clarity on whether it refers only to the domestic laws of the State, or also includes within its private international law in accordance with the doctrine of renvoi. If the latter is to be considered as appropriate, it would go against the principle of territoriality of intellectual property rights.

When it comes to the phrase 'contemplated by the parties at the time of conclusion of contract' in Art. 42, it is the opinion of Prof. Schleicherian that '*the seller's obligation in this case depends on where and how the goods are to be used according to the contract*'[2353] In cases where parties contemplate a multiplicity of countries in their international sales contract, it is suggested by the author that the liability of the seller shall extend to all the States as agreed upon in the contract. This view is supported by various experts as well as judicial bodies.[2354]

It is during the life of the contract where it can well be described as being essential for the parties to assess the conditions of use or resale. A (by analogy) implication, Art. 42(b) CISG would apply by the time the conclusion of the contract if it has not already been previously addressed. The seller will be held liable only for his primary IP rights under the laws of the State in which he has the place of business: that is, he will be liable for only certain things happening in the primary place. Any future change in the destination should have no bearing on the seller's warranty, 'even though the seller becomes conscious of the change'.[2355]

III.F Exclusions to the Warranties of the Seller: Article 42(2)

Even when the seller is deemed to be liable under Art. 42(1) of the CISG, they can be absolved of their liability under Art. 42(2) under two circumstances:

1. If the buyer 'knew or could not have been unaware' of third-party IIP rights at the time of entering contract, or
2. If the IP infringement is due to the seller complying with the 'technical drawings, designs, formulae, or other such specifications' which are contributed by the buyers themselves.

[2351] Clout Case No. 123 [Federal Supreme Court, Germany, 8 March 1995].
[2352] United Nations Commission for International Trade Law, *Yearbook* (VOLUME VIII: 1977) at p. 40 (A/32/17).
[2353] Schlechtriem, Uniform Sales Law (fn 17) at p. 74
[2354] 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; Clout Case No. 753 [Supreme Court, Austria, 12 September 2006]
[2355] Schwenzer, 'Article 42' at §11

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]

Volume 3 and Issue 1 of 2023

ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8

Published by

Institute of Legal Education

https://iledu.in

The reason that such exclusions are made, is that in the aforementioned two circumstances, it cannot be concluded that the buyer had a reasonable expectation to receive goods which are unencumbered from third-party IIP rights.

III.F.1 Buyer's *Knowledge*

As previously dealt with in Art. 42(1), the central discussion in this context also revolves around the phrase '*knew or could not have been unaware*'. Whether or not there lies a difference in the liability of the buyer and the seller when the same phraseology has been used in both sub-sections of the Article, is the question. Some experts argue that if the standard of liability of both – the buyer and the seller, is at the same pedestal, it would lead to a paradox in its results. It would lead to the conclusion that both these obligations would cancel each other out, and lead to a result in which the seller is not made liable in any case.[2356] If this interpretation is taken into consideration, it would mean that both these obligations have to have different standards of responsibility, i.e., that the seller has a higher level of duty, and must *actively* carry out its obligation to inquire, and the buyer only has a *passive* responsibility to have the requisite knowledge. This effectively means that the buyer is expected to have *actual knowledge,* and cannot ignore well-known industrial or intellectual property rights, but they are not under any obligation to actively research and carry out inquiries on the existence of any third-party rights or claims on the subject matter of the international sales contract.

Au contraire, the opposite opinion is adhered to by other experts on the matter, who opine that in principle, the same exact words in both clauses have been used intentionally to indicate an identical extent of liability on both parties. This identical duty to inquire must then be distinguished on the individual facts and circumstances of each case. This opinion is largely accepted because of its inclusion of the principles of good faith – it necessitates that any party who is in a better position to have, or acquire knowledge of third-party IIP rights or claims should shoulder the responsibility of disclosure. In international sales contracts in specific, the seller is not always the party who is expected to have such a position.

The question then arises – in what situations does the duty to inquire shift to the buyer? Various French courts have recognized the buyer's *professional capacity* as one of the considerations when it comes to allocating a higher standard of knowledge to them.[2357] If the contemplated State is the State where the buyer carries on their business as a professional, then it is reasonable to expect them to know of any third-party IIP rights or claims. The duty to inquire can also be determined on another factor – the type of product which is the subject matter of the contract, and the IIP rights attached to it. If on preliminary examination of a product, it can be concluded that an IP right might be attached to it, the buyer is then obligated to conduct an inquiry into it. However, if no such conclusion can be drawn, then the seller shall be obligated to inquire.

III.F.2 *Technical Drawings, Designs, and Formulae Contributed by the Buyer*

Under Article 42(2)(b), the seller is absolved of liability if they acted as per the instructions and directions of the buyer with regard to technical drawings, formulae, designs, or other specifications as provided by the buyer. The reason for this exemption can be found in Art. 80 of the CISG, which states that '*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.*' The issue that arises here is the definition and extent of detail while interpreting these 'other specifications', which are needed to absolve the seller of liability. One view is to interpret it as being less exact in terms of detail, which means that the seller would be absolved if they act

[2356] Kroll, at p.34.

[2357] Clout Case No. 491 [Court of Appeal of Colmar, France, 13 November 2002]; Clout Case No. 479 [Court of Cassation, France, 19 March 2002].

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]

Volume 3 and Issue 1 of 2023

ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8

Published by

Institute of Legal Education

https://iledu.in

within their margin of execution. Another view is a narrower interpretation, which requires these 'other specifications to be detailed', and in this case, acting within a margin of execution would not absolve the seller of liability, specifically if they could have employed a non-infringing alternative method.[2358]

IV. CONCLUSION

As we saw in the scope of this paper, 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 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. The author hypothesized the same position initially, however after due consideration, does not agree with such approach: if we want the CISG to succeed, we should encourage its application in order to achieve its improvement.

To do this, the author believes that the Contracting States to the CISG should reach a consensus on the interpretation of the word 'knew or should not have been unaware' in Art. 42 CISG according to Art. 31(3)(a) of the Vienna Convention on the Law of Treaties. Such an "authentic" meaning should have a collection of conditions under which the seller and buyer can divide the duty of inquiry.

As previously mentioned, these requirements which include, but are not limited to, the form of product and intellectual property rights involved in the transaction, as well as the status and/or technical ability of all parties. This creates the possibility that both sides are responsible for simultaneously enquiring about the presence of an IP right. In such cases, we should rethink one of the most criticized rulings in the CISG database, which established a 50-50 split in responsibility for losses between the parties. This is also applicable in the opposite case, where no party may reasonably be supposed to be aware of the infringement.

V. BIBLIOGRAPHY

V.A Treaties, Conventions, Rules, Guidelines

- United Nations Convention on Contracts for the International Sale of Goods, Vienna, 1980.
- Vienna Convention on Contracts for the International Sale of Goods, 1980.
- Comments by Governments and international organizations on the draft convention on the international sale of goods, United Nations Commission for International Trade Law Yearbook (Volume VIII: 1977, United Nations Publication, New York)
- Records of the Plenary Meetings and of the Meetings of the Main Committees
- United Nations Commission for International Trade Law, Yearbook (Volume VIII: 1977),

V.B Books, Commentaries

[2358] Schlechtriem, '*Seller's Obligations*', at ss.6.03 6-34.

INDIAN JOURNAL OF LEGAL REVIEW [IJLR]

Volume 3 and Issue 1 of 2023

ISSN - 2583-2344 *(and)* ISBN - 978-81-961120-2-8

Published by

Institute of Legal Education

https://iledu.in

- John O. Honnold, Uniform Law for International Sales Under The 1980 United Nations Convention 3rd Ed. Kluwer Law International, 1999.
- Peter Schleicherian & Petra Butler UN Law on International Sales: The UN Convention on the International Sale of Goods, Springer, 2009.
- Ingeborg Schwenzer (Ed.), Schlechtriem & Schwenzer Commentary on the UN Convention on The International Sale of Goods 4th ed., Oxford University Press, 2016.

V.C Case Law

- Olivaylle Pty Ltd v. Flottweg GmbH & Co KGAA, CLOUT Case No. 956 Australia, 20 May 2009.
- Oberster Gerichtshof, CD Media case, Austria, 12 September 2006.
- Oberster Gerichtshof, Cooling system case, CLOUT Case No. 541 Austria, 14 January 2002.
- Hoviokeus Helsinki Crudex Chemicals Oy v. Landmark Chemicals S.A, Finland, 31 May 2004.
- Tribunal de grande instance de Versailles, Counterfeit furniture case, France, 23 November 2004.
- Cour d'appel de Colmar, Printed products case, France, 26 February 2008.

V.D Research Papers, Journal Articles

- Thomas M. Beline Legal Defect Protected by Article 42 of the CISG: A Wolf In Sheep's Clothing, In 7 University of Pittsburgh Journal Of Technology Law & Policy (Spring 2007).
- Allison E. Butler, A Practical Guide to CISG: Negotiations Through Litigation, Aespen Publishers, 2007 Supplement 2.
- Burghard Piltz, New Developments Under The CISG, in Vindobona Journal of International Commercial Law & Arbitration (2/2007).
- Ingeborg Schwenzer, Avoidance of The Contract in Cases of Non-Conforming Goods, in Journal of Law and Commerce (2005).
- Allen M. Shinn, Jr. Liabilities Under Article 42 Of the U.N. Convention on The International Sale of Goods, in 2 Minnesota Journal of Global Trade (1993).
- Rodrigo Momberg Uribe, Change of Circumstances in International Instruments of Contract Law. The Approach Of CISG, PICC, PECL and DCFR, in Vindobona Journal of International Commercial Law and Arbitration (2011)