

CISG Advisory Council* Opinion No. 22

The seller's liability for goods infringing intellectual property rights under Article 42 CISG

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*The CISG-AC started as a private initiative supported by the Institute of International Commercial Law at Pace University School of Law and the Centre for Commercial Law Studies, Queen Mary, University of London. The International Sales Convention Advisory Council (CISG-AC) is in place to support understanding of the United Nations Convention on Contracts for the International Sale of Goods (CISG) and the promotion and assistance in the uniform interpretation of the CISG.

At its formative meeting in Paris in June 2001, Prof. Peter Schlechtriem of Freiburg University, Germany, was elected Chair of the CISG-AC for a three-year term. Dr. Loukas A. Mistelis of the Centre for Commercial Law Studies, Queen Mary, University of London, was elected Secretary. The founding members of the CISG-AC were Prof. Emeritus Eric E. Bergsten, Pace University School of Law, Prof. Michael Joachim Bonell, University of Rome La Sapienza, Prof. E. Allan Farnsworth, Columbia University School of Law, Prof. Alejandro M. Garro, Columbia University School of Law, Prof. Sir Roy M. Goode, Oxford, Prof. Sergei N. Lebedev, Maritime Arbitration Commission of the Chamber of Commerce and Industry of the Russian Federation, Prof. Jan Ramberg, University of Stockholm, Faculty of Law, Prof. Peter Schlechtriem, Freiburg University, Prof. Hiroo Sono, Faculty of Law, Hokkaido University, Prof. Claude Witz, Universität des Saarlandes and Strasbourg University. Members of the Council are elected by the Council.

At subsequent meetings, the CISG-AC elected as additional members Prof. Pilar Perales Viscasillas, Universidad Carlos III, Madrid; Prof. Ingeborg Schwenzer, University of Basel; Prof. John Y. Gotanda, Villanova University; Prof. Michael G. Bridge, London School of Economics; Prof. Han Shiyuan, Tsinghua University and Prof. Yeşim Atamer, Istanbul Bilgi University, Turkey, Prof. Ulrich G. Schroeter, University of Mannheim, Germany, Prof. Lauro Gama Jnr, Pontifical Catholic University, Justice Johnny Herre, Justice of the Supreme Court of Sweden, Prof. Harry M. Flechtner, University of Pittsburgh, Prof. Sieg Eiselen, Department of Private Law of the University of South Africa, and Prof. Edgardo Muñoz López, Universidad Panamericana, Guadalajara, México.

Prof. Jan Ramberg served for a three-year term as the second Chair of the CISG-AC. At its 11th meeting in Wuhan, People's Republic of China, Prof. Eric E. Bergsten of Pace University School of Law was elected Chair of the CISG-AC and Prof. Sieg Eiselen of the Department of Private Law of the University of South Africa was elected Secretary. At its 14th meeting in Belgrade, Serbia, Prof. Ingeborg Schwenzer of the University of Basel was elected Chair and at its 24th meeting in Antigua, Guatemala, Prof. Michael G. Bridge of the London School of Economics was elected Chair of the CISG-AC. At its 26th meeting in Asunción, Paraguay, Ass. Prof. Milena Djordjević, University of Belgrade, Serbia, was elected Secretary, and she was reelected short after the 30th meeting in Rio de Janeiro. Prof. Pilar Perales Viscasillas of the University Carlos III of Madrid was elected Chair of the CISG-AC after the 30th meeting in Rio de Janeiro.

OPINION

Article 42

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

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

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

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

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

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

Black letter rules

1. The CISG governs the seller's liability for the delivery of goods that actually or allegedly infringe a third party's industrial or other intellectual property (together "IP") rights. In contrast, the infringement itself of IP rights is not governed by the CISG.
2. The notion of IP must be interpreted autonomously. Under Article 42 CISG, industrial property is encompassed by the broader category of intellectual property. For the purposes of Article 42 CISG, IP encompasses all rights that protect a commercial or intellectual achievement by attributing that achievement to the right holder with effect for a defined territory. These rights include, in particular, patents, utility models, designs, trademarks, semiconductor designs, plant breeder's rights, copyright and similar rights, as well as licence rights deriving from these rights. In addition, rights based on competition, tort or unjust enrichment laws, that protect commercial or intellectual achievements, are also IP rights for the purposes of Article 42 CISG.
3. Article 42 CISG applies also
 - a. to goods produced by means of a process, consisting of a certain series of steps with which a defined result is achieved, that is protected by a process patent;
 - b. to goods used to apply a process protected by a process patent;
 - c. to goods encumbered by personality or personal name rights;
 - d. to goods subject to measures of public authorities based on IP; and
 - e. to rights and claims based on the IP of the seller.
4. The seller is liable if the goods are actually encumbered by third-party IP rights even if no claim is lodged.
5. The seller is liable for third-party claims that the goods infringe an IP right, regardless of whether this right in fact exists. Such claims may even be obviously unfounded or frivolous.

6. **The seller's liability under Article 42(1) CISG requires knowledge of only the existence of the IP right or claim. Such knowledge exists when the seller cannot be unaware of the right or claim. This is determined by the circumstances of the individual case taking into account the following factors:**
 - a. **the IP right's**
 - i. **publication in official publications or databases;**
 - ii. **registration in official registers;**
 - iii. **whether an IP right (most importantly a trademark) is well-known in the relevant sector (notoriety);**
 - iv. **whether an IP right can only be identified based on a deep understanding of the features and (internal) composition of the goods (technicality); and**
 - b. **the goods'**
 - i. **nature; and**
 - ii. **novelty; and**
 - c. **the seller's**
 - i. **experience with the specific goods;**
 - ii. **experience with the specific market;**
 - iii. **size of business and sophistication;**
 - iv. **language skills;**
 - v. **knowledge of the specific use intended by the buyer (in case of process patents); and**
 - d. **any other relevant circumstances of the individual case.**
7. **In order to determine a State of use under Article 42(1)(a) CISG, use is to be interpreted broadly and encompasses any action the buyer intends to take or to have taken with regard to the goods. Use includes transit of the goods through a State other than the State of their destination.**
8. **Contemplation by the parties of a State of use only requires that the seller can discern the buyer's intention to use the goods in one or more specific States from the circumstances. In particular, the parties are considered to have contemplated a State of use if**
 - a. **the buyer is active only in the market of that State and the seller could not have been unaware of this; or**
 - b. **under the contract,**
 - i. **transportation of the goods to or through that State is envisaged;**
 - ii. **instruction manuals or other documents accompanying the goods are to be in a specific language other than the buyer's language and this language is spoken only in that State;**
 - iii. **the required design of the goods points to that State; or**
 - iv. **mandatory or voluntary certificates that the goods are required to have are relevant only in that State.**

9. States in the sense of Article 42(1)(a) and (b) CISG include federal States together with all their constituent territories but not associations of States. If, however, the parties contemplate that the goods will be used only in a specific area of the State of use, the buyer cannot invoke encumbrances in different areas as a basis of the seller's liability.
10. The seller's knowledge and the identity of the relevant States are assessed at the time of conclusion of the contract. Whether the goods are encumbered with IP rights or claims under Article 42 CISG is assessed at the time of the passing of risk based on the general principle enshrined in Article 36 CISG. In the case of delivery prior to the agreed date, the seller is entitled to cure any encumbrance until the agreed date in accordance with the general principle stipulated in Article 37 CISG.
11. The buyer's knowledge of the encumbrance under Article 42(2)(a) CISG should be assessed according to the same legal standard as the knowledge requirement for the seller under Article 42(1) CISG. The same factors as in rule 6 should be considered taking into account any factual differences in the individual circumstances of the buyer and the seller.
12. The seller is not liable according to Article 42(2)(b) CISG for an encumbrance if it is the inevitable result of the contract requiring the goods to comply with the specifications furnished by the buyer. However, the seller cannot rely on Article 42(2)(b) CISG if the seller in addition to having knowledge of the IP right or claim pursuant to Article 42(1) CISG knew or could not have been unaware that the buyer's specifications would result in an encumbrance of the goods and did not inform the buyer about this.
13. Where the seller is liable for an encumbrance of a third-party IP right or claim, the buyer has all the remedies listed in Article 45 CISG. Any provision which according to its wording is expressly limited to the delivery of non-conforming goods nevertheless applies to the delivery of goods encumbered with third-party IP rights or claims.
14. After the buyer has taken over the goods, the buyer bears the burden of proof regarding the requirements of the seller's liability under Article 42 CISG, including
 - a. that the IP right or claim exists;
 - b. that the goods are encumbered by IP right or claim;
 - c. that the seller knew or could not have been unaware of the encumbrance; and
 - d. that the State of use was contemplated by the parties.
15. The seller bears the burden of proof regarding the requirements of the defences pursuant to Article 42 CISG, including
 - a. in a case where the buyer relies on an encumbrance in the State in which it has its place of business, that only a different State of use was contemplated at the time of the conclusion of the contract;
 - b. in a case where the buyer invokes an infringement of a right, that there is no infringement, for example due to existing licenses;
 - c. that the buyer knew or could not have been unaware of the IP right or claim; and
 - d. that the encumbrance was the inevitable result of the contract requiring the goods to comply with the specifications furnished by the buyer.

COMMENTS

1. The CISG governs the seller's liability for the delivery of goods that actually or allegedly infringe a third party's industrial or other intellectual property (together "IP") rights. In contrast, the infringement itself of IP rights is not governed by the CISG.

- 1.1. Sold goods frequently fall within the scope of IP rights. Machines might be encompassed by patents, apparel by design rights, or virtually any good by trademark rights. Digital content, which can fall within the scope of the CISG, e.g., in case of the sale of standard software, will almost always be subject to IP rights. If a good violates IP rights, it infringes these rights. This situation results in a triangular legal relationship between the holder of the IP right, the buyer and the seller: The holder of the IP right might have claims against the buyer and potentially also the seller of the infringing good. As a result of these claims of the holder of the IP right, there might also be claims between the buyer and the seller.
- 1.2. The CISG only applies to the contractual relation between the seller and the buyer.¹ The questions whether the IP right exists and what claims the right holder has against the buyer and the seller are governed by the relevant domestic law.² This usually is the law of the State for which protection is claimed,³ regarding tort claims the place of the tortious act.⁴
- 1.3. Under the CISG, IP rights or claims which the goods infringe are third-party rights or claims the goods are encumbered with. Whereas Article 41 addresses the seller's liability if the goods are not free from any right or claim of a third party in general, Article 42 regulates the seller's liability for goods encumbered with IP rights specifically.

2. The notion of IP must be interpreted autonomously. Under Article 42 CISG, industrial property is encompassed by the broader category of intellectual property. For the purposes of Article 42 CISG, IP encompasses all rights that protect a commercial or intellectual achievement by attributing that achievement to the right holder with effect for a defined territory. These rights include, in particular, patents, utility models, designs, trademarks, semiconductor designs, plant breeder's rights, copyright and similar rights, as well as licence rights deriving from these rights. In addition, rights based on competition, tort or unjust enrichment laws, that protect commercial or intellectual achievements, are also IP rights for the purposes of Article 42 CISG.

- 2.1. The notion of IP in the sense of Article 42 must be interpreted autonomously.⁵ The classification of the right or claim in question as IP or otherwise under the domestic law governing the IP infringement thus is irrelevant.
- 2.2. Article 42(1) encompasses encumbrances based on "industrial or other intellectual property". It follows from this wording that intellectual property is the broader category and thus decisive for the scope of the provision.⁶

¹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 3; KRÖLL ET AL./KRÖLL, Art. 42 para. 4.

² MüKo BGB-GRUBER, Art. 42 CISG para. 4; Secretariat Commentary, Art. 40 para. 7; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 2.

³ Art. 8(1) Rome II Regulation; KRÖLL ET AL./KRÖLL, Art. 42 para. 4; STAUDINGER/MAGNUS, Art. 42 para. 10; ZHANG, 86.

⁴ Art. 8(2) Rome II Regulation; STAUDINGER/MAGNUS, Art. 42 para. 10.

⁵ HONSELL/MAGNUS, Art. 42 para. 5; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 5; SCHWENZER/TEBEL, Jusletter 17 September 2012, 1, 3, para. 8; REHER, 103; detailed KREMER, 106-108.

⁶ This approach of the CISG contrasts with the approach taken by some States which juxtapose intellectual and industrial property.

- 2.3. A broad understanding of the term IP, as used in Article 42, should be applied.⁷ Ultimately decisive is – as is the case regarding Article 41 – that the right or claim is abstractly suited to impair the buyer’s use of the goods.⁸
- 2.4. Article 42 should be distinguished from Article 41 based on a functional-substantive interpretation of the term IP.⁹ Criteria such as whether the right can be registered or whether it meets the threshold of originality are as irrelevant as the specific legal conception of the provisions establishing the protection of the IP.¹⁰ IP in this sense encompasses all rights that protect a commercial or intellectual accomplishment by attributing it to the right holder with an effect at least equivalent to a right in rem.¹¹ This includes patent, utility model, design, trademark, semiconductor design, plant breed rights and copyrights,¹² supplementary protection certificates as well as license rights deriving from these rights with effect in rem,¹³ trade secrets,¹⁴ but also rights protecting commercial or intellectual achievements based on competition, tort or unjust enrichment laws.¹⁵ Guidance can be sought in Article 2(2)(viii) of the 1967 Convention establishing the World Intellectual Property Organization¹⁶ which defines IP as “all [...] rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields”.
- 2.5. In cases of doubt, it should be decisive that the third-party right in question is of territorial nature.¹⁷ Furthermore, IP third-party rights or claims encompassed by Article 42 are dependent on the physical features of the goods and encompass all goods of the kind, whereas third-party rights or claims under Article 41 are independent of the physical features of the goods and are specific to the individual good. Finally, with particular regard to competition law, a strong indication that a right is based on IP is the competence of specialised IP courts for the specific violation of competition law¹⁸ – although the determination what amounts to a right based on IP under Article 42 remains autonomous.

3. Article 42 CISG applies also

- a. to goods produced by means of a process, consisting of a certain series of steps with which a defined result is achieved, that is protected by a process patent;
- b. to goods used to apply a process protected by a process patent;
- c. to goods encumbered by personality or personal name rights;

⁷ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 4; PILTZ, para. 5–125; KRÖLL ET AL./KRÖLL, Art. 42 para. 12; but see RAUDA/ETIER, VJ 2000, 30, 36 (as exception provision Art. 42 to be interpreted restrictively).

⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 4; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 5; STAUDINGER/MAGNUS, Art. 42 para. 9; KRÖLL ET AL./KRÖLL, Art. 42 para. 13; REHER, 104, 113.

⁹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 4; KRÖLL ET AL./KRÖLL, Art. 42 para. 12; RAUDA/ETIER, VJ 2000, 30, 35-36; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 5; SCHWENZER/TEBEL, Jusletter 17 September 2012, 1, 3, para. 8; LANGENECKER, 71; REHER, 103.

¹⁰ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 4; BeckOGK-HACHEM, Art. 42 para. 8; LANGENECKER, 71; KREMER, 152-153, 158-159.

¹¹ ACHILLES, Art. 42 para. 2; PRAGER, 147; cf. also MüKo HGB-BENICKE, Art. 42 CISG para. 2. Cf. for the definition of intellectual property detailed KREMER, 124-159.

¹² BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 5; SHINN, 2 Minn. J. Global Trade (1993), 115, 122.

¹³ ACHILLES, Art. 42 para. 2.

¹⁴ STAUDINGER/MAGNUS, Art. 42 para. 11; ACHILLES, Art. 42 para. 2; METZGER, *RabelsZ* 73 (2009), 842, 863; VANDUZER, 4 *Canadian International Lawyer* (2001) 187.

¹⁵ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 4; KRÖLL ET AL./KRÖLL, Art. 42 para. 13; but see for claims based on competition law HERBER/CZERWENKA, Art. 42 para. 2; PRAGER, 146.

¹⁶ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 4; KRÖLL ET AL./KRÖLL, Art. 42 para. 12; BeckOGK-HACHEM, Art. 42 para. 7; METZGER, *RabelsZ* 73 (2009), 842, 863.

¹⁷ Cf. BIANCA/BONELL/DATE-BAH, Art. 42 para. 2.2.

¹⁸ Germany: for example § 141 MarkenG.

d. to goods subject to measures of public authorities based on IP; and
e. to rights and claims based on the IP of the seller.

- 3.1. Article 42 directly applies to process patents which encompass the sold good and going beyond its wording also to process patents which encompass the use contemplated by the parties or the ordinary use of the sold good. Process patents do not protect manufactured things as such but a certain series of steps with which a defined result is achieved.¹⁹ In essence, a process patent prohibits two things, using the process and using a product directly obtained by that process.²⁰ The latter prohibition directly affects the product as the good in question, and thus without issues triggers the direct application of Article 42. Encompassed are thus methods or processes protected by patents or utility models,²¹ as well as IP rights relating to things produced by using the goods.²²
- 3.2. The former prohibition, however, is not directly targeted at the purchased good but rather at the way the good is used. This becomes particularly clear when considering that a process patent can also prohibit using generic goods in the specifically protected process. In such a scenario, the good itself is not necessarily affected by the process patent and thus not encumbered by this IP right. Article 42 thus does not apply directly. Since Article 42, however, has the purpose of protecting the buyer's interest in using the goods, Article 42 applies if the goods cannot be used as intended under the contract or as they are generally used due to an IP right, either as a general principle in terms of Article 7(2) or by way of analogy.²³ In order to properly balance the parties' respective interests, however, this application is mainly appropriate where the purchased goods only can sensibly be used in the way prohibited by the process patent. Regarding universally usable goods, additional requirements might apply (*see infra* para. 6.8).
- 3.3. Article 42 cannot be applied directly to personality or name rights since these rights do not protect any intellectual achievement and thus are no IP rights.²⁴ Nevertheless, the comparable

¹⁹ The protection of process patents (in some legal systems also referred to as methods) is, for example, dealt with in Article 28(1) lit. b the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS): "(b) where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process."

²⁰ Cf. for this distinction in Germany also § 9 sentence 2 No. 2 and 3 PatG.

²¹ OGH 12 September 2006, CISG-online 1364; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 4; BeckOGK-HACHEM, Art. 42 para. 9; SCHLECHTRIEM/SCHROETER, para. 440; RAUDA/ETIER, VJ 2000, 30, 40; SHINN, 2 Minn. J. Global Trade (1993), 115, 132; HONSELL/MAGNUS, Art. 42 para. 6; WITZ/SALGER/LORENZ/SALGER, Art. 42 para. 4; detailed BACHER, FS Schwenger, 115, 118 et seq.; but see PRAGER, 148; ZHANG, 87. Too broad MüKo BGB-GRUBER, Art. 42 CISG para. 6 (considering mere existence of a protected method or process sufficient without requiring that the buyer's use of the goods can be impaired and consequently in favour of direct application).

²² SCHLECHTRIEM/SCHROETER, para. 440; HONSELL/MAGNUS, Art. 42 para. 6; BACHER, FS Schwenger, 115, 120-121; similar MüKo BGB-GRUBER, Art. 42 CISG para. 6 (seller liable if no alternative sensible use of goods exists or contractually intended use is impaired); RAUDA/ETIER, VJ 2000, 30, 40-41 (seller liable if no alternative sensible use of goods exists or seller can "foresee that the goods will be used in an infringing way"); but see PRAGER, 148. Too narrow BeckOGK-HACHEM, Art. 42 para. 9 (seller only liable if good can only manufacture things encompassed by intellectual property right).

²³ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 4 (for direct application); BeckOGK-HACHEM, Art. 42 para. 9 (making reference to Art. 35(2) lit. a and b); REHER, 113-114; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 6; cf. also RAUDA/ETIER, VJ 2000, 30, 39-40.

²⁴ ACHILLES, Art. 42 para. 2; BeckOGK-HACHEM, Art. 42 para. 10; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 7; REHER, 118-120; but see LANGENECKER, 78-79 (regarding the material aspects); likewise KREMER, 161 et seq. (the non-material aspects of such rights trigger the seller's general liability pursuant to Art. 41).

interests justify filling this unintentional *lacuna* by applying Article 42 as a general principle in terms of Article 7(2) or by way of analogy.²⁵

- 3.4. According to its wording, Article 42 only encompasses rights and claims “of a third party”. This term gives no indication of the legal basis upon which this party acts and thus includes public authorities as well as private parties.²⁶ There is no hard-and-fast rule to classify public law encumbrances as non-conformities or third-party encumbrances.²⁷ Instead, a distinguishing factor has to be established that allows drawing a line between those public law encumbrances that render the goods non-conforming in terms of Article 35 and those that constitute encumbrances in terms of Articles 41 and 42 on a case by case basis. It appears preferable to use the reason for the public law measure as the distinguishing factor.²⁸ Depending on whether this reason falls within the ambit of Article 35, Article 41 or Article 42, the respective provision applies.
- 3.5. Usually, a public law measure in itself does not form a separate defect but is only a reflex of a defect the measure results from.²⁹ In exceptional cases in which a public law measure constitutes a separate defect, this defect is encompassed by Article 42 if the reason of the measure falls within the ambit of Article 42. This is, for example, the case if the reason the public authorities base their measure on does not actually exist. Potentially unlawful public law measures that are not based on actual facts are comparable to unfounded claims which are encompassed by these provisions as well. In light of the parties’ interests, it makes no difference whether a third party raises a claim based on an inexistent right or a public authority which by law can act on its own initiative does so based on an inexistent right. Hence, it is not required that the reason of the public law measure is based on existing facts; it suffices that the acting public authority claims to base its measure on this reason. The distinction between non-conformities and encumbrances based on the reason for the measure established above (*see supra* para. 3.5) must thus be made based on the facts as alleged by the public authority. The rare cases, however, in which a public authority acts without direct reason and without claiming to have a reason, constitute neither non-conformities nor legal defects, but instead random events that are attributed to the affected party’s sphere of risk via the rules on the passing of risk.³⁰
- 3.6. According to its unequivocal wording, rights and claims of the seller do not fall within the scope of Article 42.³¹ The majority of authors consider the underlying interests of the parties identical to situations covered by Articles 41 and 42 and thus apply these provisions as a

²⁵ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 5; FERRARI ET AL./FERRARI, Art. 42 CISG para. 6; ACHILLES, Art. 42 para. 2; METZGER, *RabelsZ* 73 (2009), 842, 863-864; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 7; MüKo BGB-GRUBER, Art. 42 para. 7; WITZ/SALGER/LORENZ/SALGER, Art. 42 para. 4; cf. also BeckOK-SAENGER, Art. 42 para. 5 (“in any event” analogous application). In favour of direct application KRÖLL ET AL./KRÖLL, Art. 42 para. 13; jurisPK BGB-BAETGE, Art. 42 CISG para. 5; KREMER, *passim*; seemingly also SOERGEL/LÜDERITZ/SCHÜSSLER-LANGEHEINE, Art. 42 para. 2; STAUDINGER/MAGNUS, Art. 42 para. 12. Against analogous application RAUDA/ETIER, *VJ* 2000, 30, 36; seemingly also SU, *IPRax* 1997, 284, 286.

²⁶ Cf. BeckOGK-HACHEM, Art. 41 para. 10; jurisPK BGB-BAETGE, Art. 41 CISG para. 16. But see STAUDINGER/MAGNUS, Art. 41 para. 13; likewise HONSELL/MAGNUS, Art. 41 para. 9; SOERGEL/LÜDERITZ/SCHÜSSLER-LANGEHEINE, Art. 41 para. 5; similar MüKo BGB-GRUBER, Art. 41 CISG para. 13, 15; cf. also ACHILLES, Art. 41 para. 2; FERRARI ET AL./FERRARI, Art. 41 CISG para. 3; PILTZ, para. 5–119; KIENE, *IHR* 2006, 93, 94.

²⁷ BRUNNER/GOTTLIEB/TEBEL, Art. 41 para. 14.

²⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 6; KRÖLL ET AL./KRÖLL, Art. 41 para. 25; BeckOGK-HACHEM, Art. 41 para. 9; BRUNNER/GOTTLIEB/TEBEL, Art. 41 para. 14; KIENE, *IHR* 2006, 93, 94-95. Similar SU, *IPRax* 1997, 284, 286 (“distinguishing according to the nature”).

²⁹ BGH 11 January 2006, CISG-online 1200; MüKo BGB-GRUBER, Art. 41 CISG para. 15 (regarding seizures).

³⁰ BRUNNER/GOTTLIEB/TEBEL, Art. 41 para. 16; MüKo BGB-GRUBER, Art. 41 CISG para. 15 (regarding seizure of the goods without cause).

³¹ MüKo BGB-GRUBER, Art. 42 CISG para. 9; cf. also KRÖLL ET AL./KRÖLL, Art. 42 para. 11; but see WITZ/SALGER/LORENZ/SALGER, Art. 41 para. 8 (seller can be “third party”).

general principle in terms of Article 7(2) or by way of analogy.³² Oftentimes, however, the seller will not be entitled to invoke its IP rights due to the exhaustion doctrine since it willingly put the goods into circulation in the relevant State;³³ if the seller nevertheless does so, however, it is liable for this claim.

4. The seller is liable if the goods are actually encumbered by third-party IP rights even if no claim is lodged.

Third-party rights are existing legal positions regarding the delivered thing.³⁴ If the goods are in fact encumbered with an IP right, the seller is liable under Article 42 even if the right holder does not lodge a claim against the buyer.

5. The seller is liable for third-party claims that the goods infringe an IP right, regardless of whether this right in fact exists. Such claims may even be obviously unfounded or frivolous.

5.1. Third-party claims are legal positions the third party purports to have, regardless whether they in fact exist.³⁵ The primary consideration behind the provisions' broad scope in this regard is that – as HONNOLD aptly put it – the buyer “is not purchasing a lawsuit”.³⁶ When determining the seller's liability for encumbrances under the CISG, it is thus irrelevant whether the claim made by the third-party is well-founded. Even claims that are obviously unfounded or frivolous in general constitute encumbrances of the goods for which the seller is liable.³⁷

5.2. It is not required that the claims are raised in any particular form.³⁸ Particularly, it is not necessary that the third party brings legal action against the buyer.³⁹ It is also not necessary that the claims are asserted with such intensity that the buyer's use of the goods is actually impaired.⁴⁰

6. The seller's liability under Article 42(1) CISG requires knowledge of only the existence of the IP right or claim. Such knowledge exists when the seller cannot be unaware of the right or claim.

³² For Article 41: MüKo BGB-GRUBER, Art. 41 CISG para. 11; KRÖLL ET AL./KRÖLL, Art. 41 para. 22 (apparently limited to claims); cf. also SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 15. For Article 42: MüKo BGB-GRUBER, Art. 42 CISG para. 9; cf. also KRÖLL ET AL./KRÖLL, Art. 42 para. 11. But see PILTZ, para. 5–119; MüKo HGB-BENICKE, Art. 41 CISG para. 6.

³³ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 7; MüKo BGB-GRUBER, Art. 42 CISG para. 9; ACHILLES, Art. 42 para. 3.

³⁴ BRUNNER/GOTTLIEB/TEBEL, Art. 41 para. 5.

³⁵ BRUNNER/GOTTLIEB/TEBEL, Art. 41 para. 11.

³⁶ HONNOLD/FLECHTNER/HONNOLD, Art. 41 para. 266; cf. also MüKo BGB-GRUBER, Art. 41 CISG para. 6; BeckOGK-HACHEM, Art. 41 para. 12; BGH 11 January 2006, CISG-online 1200, para. 19.

³⁷ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 11; SCHWENZER/TEBEL, Jusletter 17 September 2012, 1, 4, para. 11; BeckOK-SAENGER, Art. 41 para. 5; MüKo BGB-GRUBER, Art. 41 CISG para. 8; HONSELL/MAGNUS, Art. 41 para. 10; but see Secretariat Commentary, Art. 39 para. 4; ACHILLES, Art. 41 para. 3; ACHILLES, FS Schwenger, 1, 7-8; SOERGEL/LÜDERITZ/SCHÜSSLER-LANGEHEINE, Art. 41 para. 7; HERBER/CZERWENKA, Art. 41 para. 6; HOYER/POSCH/NIGGEMANN, 93; GALSTON/SMIT/SCHLECHTRIEM, 6–32; ZHANG, 77, 86; left open by BUCHER/SCHLECHTRIEM, 120.

³⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 12; KRÖLL ET AL./KRÖLL, Art. 41 para. 17; MüKo BGB-GRUBER, Art. 41 CISG para. 7.

³⁹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 12; BeckOK-SAENGER, Art. 41 para. 5.

⁴⁰ But cf. KRÖLL ET AL./KRÖLL, Art. 41 para. 17; MüKo HGB-BENICKE, Art. 41 CISG para. 8; unclear SU, IPRax 1997, 284, 285. Cf. also BeckOGK-HACHEM, Art. 41 para. 14 (requiring that the third party shows its intention to impair the buyer's use of the goods).

- 6.1. The notion of knowledge under Article 42(1) is to be interpreted autonomously. Accordingly, there can be no recourse to categories of fault known in fault-based domestic legal systems when defining knowledge in a strict liability system like the CISG.⁴¹
- 6.2. The seller is not required to know the nature or details of the right⁴² or claim or classify the right or claim as based on IP. The seller further is not required to conduct a legal evaluation of the right or claim and is liable irrespective of its subjective evaluation of the existence of the right or the prospects of success of the claim.⁴³ A legal analysis of the prospects of success of a claim in many cases will simply be too complicated to be expected of the seller. As regards technical IP rights like patents, for instance, determining whether a good is encompassed by the scope of the IP right can be a very complicated legal question that oftentimes is at the core of IP disputes.⁴⁴ With regard to trademarks, the risk of confusion also is a complicated matter that mostly requires expert knowledge to assess correctly. Finally, it is precisely the risk of whether a claim is founded that Article 42 allocates to the seller by triggering the seller's liability already in case of mere claims. Requiring the seller to be aware that a claim is founded would negate this value judgement. Article 42 hence allocates the legal risk, whether a claim is valid to the seller but not the factual risk whether a claim is brought at all.
- 6.3. With regard to the question which right or claim the seller must be aware of precisely, there are five possible scenarios: First, the goods are infringing an existing IP right without any claim being asserted. In this scenario, it is evident that the seller must be aware of the IP right.
- 6.4. Second, the goods are not infringing any existing IP right, but the third party claims they do in relation to the buyer. Since the seller is not required to conduct any legal evaluation, the seller's knowledge of the IP right that the third party's unfounded claim invokes is insufficient. Rather, the seller must be aware of the claim itself.
- 6.5. Third, the goods are infringing an existing IP right and a claim based on this very IP right is asserted in relation to the buyer. Here, awareness of either the right or the claim triggers the seller's liability.
- 6.6. Fourth, the goods are infringing an existing IP right and a claim based on this very IP right is asserted in relation to another party. In this scenario, the question is whether the seller's knowledge that the third party asserted a claim against another party is sufficient to trigger the seller's liability for the goods' encumbrance with the right if the third party never asserts its claim in relation to the buyer. The answer should be in the affirmative. Knowledge of a claim based on a specific IP right includes knowledge of the IP right itself as *minus*. In order to distinguish this scenario from the second scenario, it can be summarised that knowledge of the right does not include knowledge of the claim, whereas knowledge of the claim includes knowledge of the right.
- 6.7. Fifth, the goods are not infringing any existing IP right, but the third party claims they do first in relation to other parties and then in relation to the buyer. The wording of Article 42(1) allows holding the seller liable in this situation. Autonomously interpreted, the term "claim"

⁴¹ BeckOGK-HACHEM, Art. 42 para. 16; KRÖLL ET AL./KRÖLL, Art. 42 para. 27; JANAL, FS Kritzer, 203, 217; LANGENECKER, 171; PRAGER, 162; cf. also PILTZ, para. 5–131.

⁴² BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 10.

⁴³ KRÖLL ET AL./KRÖLL, Art. 42 para. 26; cf. also STAUDINGER/MAGNUS, Art. 42 para. 22; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 10; but see ACHILLES, Art. 42 para. 9; REHER, 157; cf. also MüKo HGB-BENICKE, Art. 42 CISG para. 16; JANAL, FS Kritzer, 203, 217.

⁴⁴ Cf. BeckOGK-HACHEM, Art. 42 para. 17.

does not necessarily include the party the claim is directed at. To the contrary, the natural use of the term “claim” requires additional specification against whom it is directed, that is, the party. Accordingly, the claim raised against another party before the conclusion of the sales contract can be the same claim that is subsequently raised in relation to the buyer. Consequently, it suffices that the seller is aware that a third party asserts a specific IP right⁴⁵ while it is not required that the seller knows that the third party has done so in relation to the buyer – even if the IP right eventually proves non-existent⁴⁶ or not encompassing the goods in question.

- 6.8. With regard to process patents that do not encompass the goods sold but nevertheless impair the contractually intended use of these goods, the seller does not have to arrive at the conclusion that the buyer’s use is impaired by the process patent. On the other hand, it cannot be sufficient for triggering liability that the seller knows of the existence of a process patent prohibiting one of many potential uses of universally usable goods. This issue is comparable to the territorial limitation: Pursuant to Article 42(1) lit. a, the seller is only liable for encumbrances in the State of use if use in this State was contemplated by the parties. This limitation protects the seller from being liable for encumbrances worldwide and thereby allows it to assess the risk associated with entering into the contract with the buyer. Similarly, in order to assess this risk with specific regard to process patents, the seller cannot take into account all theoretically possible uses of universally usable goods. Instead, the seller must discern the buyer’s intended use on which the infringement of the process patent is based (in parallel to the properly interpreted standard of contemplation under Article 42(1) lit. a, *see infra* para. 8.1 et seq.).⁴⁷
- 6.9. In parallel to Article 42(1) lit. b, the seller further is liable for encumbrances with process patents prohibiting the ordinary use of the purchased goods irrespective of whether he can discern the buyer’s intended use.
- 6.10. The seller is not only liable pursuant to Article 42 if it knows of the right or claim but also if it “could not have been unaware” of it. In practice, proving actual knowledge will oftentimes be difficult for the buyer.⁴⁸ The notion of “could not have been unaware” is thus decisive for the scope of the limitation of the seller’s liability Article 42 seeks to achieve.⁴⁹ The crucial question in this regard is whether and if so to what extent the seller is expected to investigate for IP rights and claims.
- 6.11. In this context, many authors refer to a “duty to investigate”.⁵⁰ The term “duty” in this regard is, however, misplaced. Neither can the buyer compel the seller to conduct such an investigation, nor has it any immediate effects on the seller’s legal position whether it conducts an investigation or fails to do so. In particular, the seller obviously still is liable for the encumbrance if it did conduct a proper investigation and discovered the encumbrance but nevertheless sold the encumbered goods to the buyer. It is also undisputed that the seller is not in breach of its obligations if it did not conduct any investigation and the goods sold are not encumbered. In short, whether or not the individual seller in question actually conducts an investigation is irrelevant; rather, the reference to an investigation merely expresses what

⁴⁵ MüKo BGB-GRUBER, Art. 42 CISG para. 20.

⁴⁶ KRÖLL ET AL./KRÖLL, Art. 42 para. 26.

⁴⁷ BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 12.

⁴⁸ REHER, 157; LANGENECKER, 172-173.

⁴⁹ LANGENECKER, 176-177.

⁵⁰ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 15; BeckOGK-HACHEM, Art. 42 para. 16-17; HONNOLD/FLECHTNER/FLECHTNER, Art. 42 para. 270.1; KRÖLL ET AL./KRÖLL, Art. 42 para. 29-32; REHER, 159; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 11, but see note 1632 *in fine*; cf. also PILTZ, para. 5–132.

an abstract reasonable and diligent seller could not have been unaware of. Therefore, it seems more appropriate to refer to an expectation to investigate instead of a duty to investigate. The issue is, however, mainly terminological.

- 6.12. In essence, there are three positions advocated what degree of knowledge on the part of seller triggers its liability. The most restrictive position can be found in early writings on Article 42 which read the reference to “could not have been unaware” as mere facilitation of proof.⁵¹ Interestingly enough, some of these authors criticise this interpretation as being too burdensome for the buyer⁵² and consider it desirable that the seller is expected to investigate for IP rights.⁵³ A middle-ground is suggested by some authors who expect the seller to investigate for IP rights only in case of specific indications that such rights exist in the relevant State.⁵⁴ According to the majority of authors, however, the seller is generally expected to investigate for IP rights in the relevant State.⁵⁵
- 6.13. To answer the question of whether the seller is expected to investigate for IP rights and claims, the standard “could not have been unaware” must be interpreted. The natural understanding of the phrase “could not have been unaware” is that due to the circumstances of the individual case, it was impossible for the relevant party not to be aware of certain facts, that is the party is expected to have been aware of these facts. The French⁵⁶ and Spanish⁵⁷ language versions do not give any further indications in this regard, and neither do the non-authentic Dutch⁵⁸ and German⁵⁹ translations. The wording as such does not indicate whether this expectation includes active investigations by the relevant party or is merely based on the party’s – passive – knowledge of the circumstances.⁶⁰
- 6.14. From a systematic point of view, the phrase “could not have been unaware” is one of the three primary forms⁶¹ of knowledge referred to in the CISG.⁶² It must be distinguished from the standard “known”⁶³ on the one hand and the standard “ought to have known”⁶⁴ on the other hand. Generally, these standards are described as hierarchical in that “could not have been unaware” is stricter than “ought to have known” but less strict than “known”.⁶⁵ A systematic comparison of the instances in which these standards are used in the CISG indicates that the standard of “could not have been unaware” tends to be used to determine

⁵¹ PRAGER, 167; HUBER, 43 *RabelsZ* (1979), 413, 503; cf. also WOLFF, 75. Against this detailed LANGENECKER, 176 et seq.; cf. also RAUDA/ETIER, VJ 2000, 30, 45 (“not a pleonasm of knowledge”).

⁵² HUBER, 43 *RabelsZ* (1979), 413, 503.

⁵³ PRAGER, 169 et seq.

⁵⁴ LANGENECKER, 187 et seq.; JANAL, FS Kritzer, 203, 217; SOERTEL/LÜDERITZ/SCHÜSSLER-LANGEHEINE, Art. 42 para. 4.

⁵⁵ BeckOK-SAENGER, Art. 42 para. 12; HONNOLD/FLECHTNER/FLECHTNER, Art. 42 para. 270.1; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 15; STAUDINGER/MAGNUS, Art. 42 para. 22; HERBER/CZERWENKA, Art. 42 para. 5; FERRARI ET AL./FERRARI, Art. 42 CISG para. 15; PILTZ, para. 5–132; BACHER, FS Schwenger, 115, 124; RAUDA/ETIER, VJ 2000, 30, 45; cf. also BeckOGK-HACHEM, Art. 42 para. 18 (perceptibility decisive); BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 11; ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 42, 180; REHER, 160-161; Secretariat Commentary, Art. 40 para. 6.

⁵⁶ “[...] *ne pouvait ignorer* [...]”.

⁵⁷ “[...] *no hubiera podido ignorar* [...]”.

⁵⁸ “[...] *niet onkundig had kunnen zijn* [...]”.

⁵⁹ “[...] *nicht in Unkenntnis sein konnte* [...]”.

⁶⁰ RAUDA/ETIER, VJ 2000, 30, 46 for the English, Spanish and French language versions.

⁶¹ The phrase “may be known” (Art. 65(1)) is only of limited relevance.

⁶² HONNOLD/FLECHTNER/HONNOLD, Art. 35 para. 229; LANGENECKER, 178-179; PRAGER, 163.

⁶³ The phrase “is aware of” (Art. 69(2)) is synonymous.

⁶⁴ The phrases “ought to have become aware of” (43(1)) and “discovered or ought to have discovered” (Art. 39(1), Art. 82(2)(c)) are synonymous.

⁶⁵ LANGENECKER, 179.

more severe consequences than the standard of “ought to have known”. How these standards are applied in these instances does, however, vary and does not allow to draw a clear line between the two standards.⁶⁶

- 6.15. During the drafting of the CISG, after an initial general reluctance to address the issue of IP encumbrances at all was overcome,⁶⁷ there was a lively debate on the interrelation of the notions of “known”, “could not have been unaware” and “ought to have known”. Most of the debate focussed on Article 8. Yet, an unopposed statement made by the Belgian delegation confirms that the perception was that the standard of “could not have been unaware” required the seller to investigate for IP rights: The Belgian delegate “pointed out that the seller might have a heavy burden because in some cases he would have to undertake inquiries and research into industrial property rights, which he would not always be in a position to do” and suggested to change this wording of Article 42(1).⁶⁸ The Belgian delegation’s assessment that the seller was expected to conduct an investigation was neither contradicted nor its suggestion followed to change the wording of Article 42(1).⁶⁹ The reasonable conclusion from this is that the majority view during the drafting phase was that the standard “could not have been unaware” in Article 42(1) required the seller to conduct investigations. This result is confirmed by the Secretariat Commentary. According to the commentary on Article 42, “[t]he seller ‘could not have been unaware’ of the third-party claim if that claim was based on a patent application or grant which had been published in the country in question”.⁷⁰ Since the seller is not automatically aware of all published IP rights, the Secretariat Commentary’s standard expects the seller to investigate for such publications.
- 6.16. Expecting the seller to investigate for IP rights also is in line with the purpose of Article 42(1). The primary aim of this provision is to limit the seller’s liability for encumbrances of the goods with IP rights and claims compared to the general liability for encumbrances pursuant to Article 41.⁷¹ The buyer’s interest is to receive goods free from encumbrances which it is usually entitled to without further limitations in accordance with the principle of strict liability. The seller, on the other hand, is interested in having its liability limited due to the specific (territorial) nature of IP rights and claims. Accordingly, a reasonable interpretation of the provision requires balancing these factors and the respective interests attached to them.⁷² In consequence, Article 42 must not be interpreted in a way that renders the seller’s liability for encumbrances based on IP meaningless nor in a way that renders the limitation of the seller’s liability meaningless. The notion of “could not be unaware” is the decisive parameter to achieve this balance. The broader this notion is interpreted, the closer the results are to a strict liability of the seller and the less effective is the seller’s limitation of liability.⁷³ Moreover, it must be taken into account that the seller’s

⁶⁶ Already during the drafting of the CISG, the U.S. delegation criticised the “careless” use of the different standards of knowledge in the CISG, Y.B. VIII [1977], 134 para. 19. Cf. also the similar criticism by Australia, Y.B. VIII [1977], 110 para. 7.

⁶⁷ Cf. Art. 7(2) of the 1976 Geneva Draft expressly excluding “rights and obligations which might arise between the seller and the buyer because of the existence in any person of rights or claims which relate to industrial or intellectual property or the like”, Y.B. VII [1976], 100; Y.B. VIII [1977], 41 para. 216 (voicing concern that “the regulation of industrial or intellectual property rights was too complex a matter to be resolved in the context of a draft Convention on the International Sale of Goods”).

⁶⁸ O.R., 327.

⁶⁹ Cf. LANGENECKER, 182.

⁷⁰ Secretariat Commentary, Art. 40 para. 6.

⁷¹ KRÖLL ET AL./KRÖLL, Art. 42 para. 3; JANAL, FS Kritzer, 203, 205; ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 42, 179.

⁷² Cf. PRAGER, 156-157.

⁷³ Cf. LANGENECKER, 183.

liability already is significantly limited by the territorial limitation.⁷⁴ Furthermore, compared to Article 41, the requirements for excluding the seller's liability under Article 42(2) are significantly more lenient. Accordingly, the seller's interests are given due regard⁷⁵ even if it is generally expected to investigate for IP rights.

- 6.17. Further, not expecting the seller to investigate for IP encumbrances in the relevant States would render the territorial limitation virtually meaningless. The purpose of the territorial limitation is to allow the seller to assess its liability risk. If the seller would only be liable for encumbrances it was aware of or closed its eyes to, it would already be in the position to assess its liability even worldwide based on this knowledge.
- 6.18. The expectation to investigate for IP rights thus is a valuable tool to balance the interests of the parties. Defining the scope of such expectation offers far superior possibilities to fine-tune this balance than outright rejecting any expectation of active investigations. The purpose of Article 42 as limitation of the generally strict liability of the seller thus supports an interpretation of the standard "could not have been unaware" as expecting the seller to investigate for IP rights or claims.
- 6.19. Moreover, economic considerations confirm that the seller should be expected to investigate for IP rights. The economically most efficient outcome would be to allocate the risk of an adverse effect to the party that can avoid this effect with the least effort, the so-called cheapest cost avoider.⁷⁶ In the context of Article 42, the question thus is whether it is more efficient to have the seller or the buyer investigate for IP rights or claims.⁷⁷ As regards the question of whether the seller is expected to investigate at all, it is sufficient to attest that it is at least possible that under certain circumstances, the seller can conduct such investigation more efficiently. The only reasonable conclusion is to expect the seller to investigate for IP rights. From economic perspective, even if the seller is expected to investigate, it will not do so if it determines the cost of such investigation to be higher than the expectancy value of its potential liability; whereas, if the seller is not legally expected to investigate, it will not do so even if it determines the costs of such investigation to be lower than the expectancy value of its theoretical liability.⁷⁸
- 6.20. Defining the scope of the expected investigations still allows to more precisely allocate the investigations to the cheapest cost avoider. This way, the expectation to investigate can mitigate information asymmetries, reduce the cost of transacting, and improve the economic efficiency of markets.⁷⁹ Not expecting the seller to investigate for IP rights would, however, exclude the possibility of efficiently allocating the cost of an investigation altogether.
- 6.21. Furthermore, the seller's legal situation from the perspective of IP law must be considered. Pursuant to many IP laws, selling goods encompassed by an IP right already constitutes an infringement the seller is liable for.⁸⁰ The seller's liability in this regard is not limited to IP rights the seller is aware of. Rather, the seller is expected to investigate for IP rights by

⁷⁴ LANGENECKER, 183.

⁷⁵ LANGENECKER, 184.

⁷⁶ METZGER, *RabelsZ* 73 (2009), 842, 852-853.

⁷⁷ Cf. SMYTHE, 36 *Nw. J. Int'l L. & Bus.* (2016), 509, 531.

⁷⁸ Cf. METZGER, *RabelsZ* 73 (2009), 842, 855.

⁷⁹ SMYTHE, 36 *Nw. J. Int'l L. & Bus.* (2016), 509, 533.

⁸⁰ Article 28(1) lit. a TRIPS; Switzerland: § 8(1) PatG; Art. 13(2) lit. c MSchG; Art. 9(1) DesG; Art. 5 lit. b ToG; Germany: § 14(3) No. 2 MarkenG; BeckOK MarkenR-Mielke, § 14 MarkenG para. 225-227; § 9 Sentence 2 No. 1 PatG; MES, § 9 PatG para. 37; § 11(1) Sentence 2 GebrMG; BENKARD/SCHAREN, § 11 GebrMG para. 4; § 38(1) Sentence 2 DesignG; EICHMANN/VON FALCKENSTEIN/KÜHNE/EICHMANN, § 38 DesignG para. 53; § 6(1) Sentence 2 No. 2 HalblSchG. In general METZGER, *RabelsZ* 73 (2009), 842, 856; JANAL, FS Kritzer, 203, 216; cf. BACHER, FS Schwenzer, 115, 124.

observing the market and the relevant publications.⁸¹ If such investigation can be expected from the seller in the interest of a third party to which the seller has no relation, it can be expected from the seller even more so in the framework of its contractual relationship with the buyer.⁸² At least expecting the seller to conduct an investigation for IP rights in relation to the goods sold cannot be considered overly onerous if the seller is expected to do so pursuant to the relevant IP laws in any case.

- 6.22. Finally, a comparison with the legal regime governing non-conformities confirms this result. There is a certain parallelism between the seller's liability for encumbrances in the State of use under Article 42(1) lit. a and the seller's liability for non-conformities arising from the goods' non-compliance with public law standards in the State of use (or the buyer's State) under Article 35(2) lit. b.⁸³ The parties' interests in the case of the goods' non-compliance with public law standards in the relevant State and in case of the goods' infringement of IP rights in the relevant State are comparable. In particular, public law standards generally apply only in the State in question, just as IP rights do. From the perspective of the parties, it cannot make any difference whether the buyer's use of the goods is impaired based on public law standards or private third-party rights. This parallelism specifically applies with regard to the knowledge requirements under both provisions.⁸⁴ Consequently, when determining whether the seller can be expected to investigate for IP rights in the relevant State, guidance can be sought in the application of Article 35(2) lit. b. With regard to Article 35(2) lit. b, it is acknowledged that "if the seller knew or could not have been unaware of the place of use of the goods, it should investigate the existence of any local standards, affecting the use of the goods".

This is determined by the circumstances of the individual case taking into account the following factors:

a. the IP right's

- i. publication in official publications or databases;**
- ii. registration in official registers;**
- iii. whether an IP right (most importantly a trademark) is well-known in the relevant sector (notoriety);**
- iv. whether an IP right can only be identified based on a deep understanding of the features and (internal) composition of the goods (technicity); and**

- 6.23. Whether the seller cannot be unaware of the IP right or claim cannot be determined abstractly but must be determined based on the circumstances of the individual case.⁸⁵ In doing so, the mainly decisive criteria are the objective accessibility of the information based on the IP right and the goods in question as well as the subjective proximity of the party to the information it is expected to acquire.

⁸¹ Germany: BGH 14 January 1958, GRUR 1958, 288, 290 – Dia-Rähmchen; BGH 3 March 1977, GRUR 1977, 598, 601 – Autoskooter-Halle; BGH 26 January 1993, GRUR 1993, 460, 464 – Wandabstreifer; MES, § 139 PatG para. 105; BGH 31 JULY 2008, GRUR 2008, 1104, 1107 – Haus & Grund II; BeckOK MarkenR-GOLDMANN, § 14 MarkenG para. 694; BGH 12 November 2009, GRUR 2010, 616, 620 – marions-kochbuch.de; DREIER/SCHULZE/SPECHT, § 97 UrhG para. 78; METZGER, RabelsZ 73 (2009), 842, 856.

⁸² SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 15; METZGER, RabelsZ 73 (2009), 842, 857.

⁸³ SCHLECHTRIEM, IPRax 1996, 12, 15-16; SCHLECHTRIEM, IPRax 2001, 161, 163; REHER, 92; SMYTHE, 36 Nw. J. Int'l L. & Bus. (2016), 509, 535; BELINE, 7 Univ. of Pitts. Journal Tech. Law & Pol'y (2007) 6, 10; cf. also Y.B. VIII [1977], 139.

⁸⁴ LURGER, IHR 2001, 91, 101 note 87.

⁸⁵ MüKo BGB-GRUBER, Art. 42 CISG para. 19; LANGENECKER, 192. But cf. HERBER/CZERWENKA, Art. 42 para. 5 ("the seller always has to know published intellectual property rights"); similar Secretariat Commentary, Art. 40 para. 6.

- 6.24. When determining the scope of the seller's expected investigation, the first and foremost criterion is the accessibility of the information.⁸⁶ The accessibility of the information defines how difficult it is objectively to acquire relevant information. Nowadays, many IP registers can be accessed online and conveniently searched; this naturally affects what can be expected of the seller.⁸⁷
- 6.25. The second relevant criterion is the proximity of the seller to the relevant information. Hence, the scope of the seller's investigation depends on the information it has access to at the relevant time.⁸⁸ The information proximity thus defines how much of an effort the specific seller must make to acquire the relevant information. Generally, the seller can rely on the legal advice of specialised lawyers in the State of protection.⁸⁹
- 6.26. The above-mentioned criteria must be determined by taking into account objective factors relating to the IP right in question and subjective factors relating to the specific seller.
- 6.27. It is obvious that the publication of IP rights facilitates their accessibility in the context of Article 42 by way of an investigation. Yet, some authors go as far as to categorically exclude any expectation of the seller to investigate for non-published rights.⁹⁰ This reasoning fails to take into account well-known trademarks⁹¹ or encumbrances resulting from the protection of IP rights through competition or tort law. While these encumbrances are not published, they might very well be identifiable with reasonable effort by way of an investigation. To be considered well-known, a trademark must be generally known in the relevant sector.⁹² The required degree of awareness is usually quantified at between 50⁹³ and 70%⁹⁴ of the relevant market participants⁹⁵. Publication is not required for a well-known trademark to be protected. Given its status as being well-known, such a trademark should nevertheless be readily identifiable by way of an investigation – at least if the respective party is part of the relevant sector of the public based upon which the trademark is classified as well-known. Hence, the threshold for the seller to be expected to identify published IP rights by way of investigation is generally lower than it is with regard to non-published rights. Nevertheless, depending on the circumstances of the individual case, the seller can very well be expected to identify certain non-published rights by way of an investigation, like, for example, well-known trademarks.
- 6.28. According to some authors, the seller can only be expected to investigate for registered rights.⁹⁶ For the seller to be expected to access the relevant registers, these must be readily accessible.⁹⁷ Again there is no hard and fast rule: The threshold to expect the seller to access

⁸⁶ BeckOGK-HACHEM, Art. 42 para. 18; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 11; cf. CISG Advisory Council Opinion No. 19, Standards and Conformity of the Goods under Article 35 CISG, Rapporteur SAIDOV, Rule 4 lit. k, para. 4.23.

⁸⁷ Cf. HONNOLD/FLECHTNER/FLECHTNER, Art. 42 para. 270.1; KRÖLL ET AL./KRÖLL, Art. 42 para. 31.

⁸⁸ SHINN, 2 *Minn. J. Global Trade* (1993), 115, 125 et seq.; cf. also ACHILLES, Art. 42 para. 8; BACHER, FS *Schwenzer*, 115, 126; JANAL, FS *Kritzer*, 203, 220; METZGER, *RabelsZ* 73 (2009), 842, 862.

⁸⁹ KRÖLL ET AL./KRÖLL, Art. 42 para. 34; GALSTON/SMIT/SCHLECHTRIEM, 6–34.

⁹⁰ RAUDA/ETIER, *VJ* 2000, 30, 48; cf. also KREMER, 208 (duty to investigate only possible for registered or published intellectual property rights).

⁹¹ Cf. Article 6^{bis} Paris Convention; Article 16(2) sentence 2 TRIPS Agreement.

⁹² Germany: BGH 2 April 1969, GRUR 1969, 607, 608-609 – *Reclin*.

⁹³ Switzerland: BGer 20 January 2004, 4C.229/2003, E.4.7.3.

⁹⁴ Germany: BeckOK *MarkenG-WEILER*, § 4 para. 151.

⁹⁵ Germany: OLG Frankfurt am Main 12 September 2012, BeckRS 2012, 21368; INGERL/ROHNKE, § 4 *MarkenG* para. 31.

⁹⁶ ACHILLES, Art. 42 para. 9; STAUDINGER/MAGNUS, Art. 42 para. 22; *jurisPK BGB-BAETGE*, Art. 42 CISG para. 15; cf. also BELINE, 7 *Univ. of Pitts. Journal Tech. Law & Pol'y* (2007) 6.

⁹⁷ Cf. STAUDINGER/MAGNUS, Art. 42 para. 22.

readily available registers in its investigation certainly is significantly lower than with regard to non-registered rights. Yet, the seller in principle is expected to investigate for non-registered IP rights as well.⁹⁸

- 6.29. Where the IP rights protect the technical or biological characteristics of the goods, the seller accordingly will usually be in a better position to investigate for such rights.⁹⁹ The reason for this is that identifying such technical rights¹⁰⁰ which might encumber certain goods requires a deep understanding of the features and (internal) composition of said goods. The buyer, on the other hand, will only be able to conduct a proper investigation if it has detailed knowledge of the technical composition of the goods, for example, because it manufactures comparable goods itself.¹⁰¹ In contrast, most non-technical rights¹⁰² can be identified as potential encumbrance just from the visual appearance of the goods. Here, not the technical or biological composition – of which usually only the seller has sufficient knowledge – is the basis for the potential infringement but the fact that the goods bear a trademark. Concluding that the goods potentially violate the corresponding trademark right of a third party requires no specific knowledge of the goods.¹⁰³

b. the goods'

- i. nature; and**
- ii. novelty; and**

- 6.30. Further the goods' nature and novelty might influence the objective accessibility of the relevant information, eg a good is of such a novel and innovative type that it is difficult to identify relevant IP rights.

c. the seller's

- i. experience with the specific goods;**
- ii. experience with the specific market;**
- iii. size of business and sophistication;**
- iv. language skills;**
- v. knowledge of the specific use intended by the buyer (in case of process patents); and**

d. any other relevant circumstances of the individual case.

- 6.31. It has been established that investigating for technical IP rights requires in-depth knowledge of the features and (internal) composition of the goods in question. Consequently, a relevant

⁹⁸ KRÖLL ET AL./KRÖLL, Art. 42 para. 31; BeckOGK-HACHEM, Art. 42 para. 18 (for all published intellectual property rights); LANGENECKER, 195-196 (in case of concrete indications); METZGER, *RabelsZ* 73 (2009), 842, 854 (with economic argumentation); MüKo HGB-BENICKE, Art. 42 CISG para. 20-21 (in case the sale in the buyer's State was initiated by the seller or the seller offers the goods specifically to be used in the State of use); BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 11. Reluctant BeckOK-SAENGER, Art. 42 para. 12; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 15; VANDUZER, 4 *Canadian International Lawyer* (2001), 187; JANAL, FS Kritzer, 203, 215; PILTZ, para. 5–132 ("usually not"); WITZ/SALGER/LORENZ/SALGER, Art. 42 para. 7 ("usually not"); STAUDINGER/MAGNUS, Art. 42 para. 22 (regarding non-registered but published intellectual property rights); similar FERRARI ET AL./FERRARI, Art. 42 CISG para. 15.

⁹⁹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 15; LANGENECKER, 191, 202-203; REHER, 160; cf. also KRÖLL ET AL./KRÖLL, Art. 42 para. 31; ACHILLES, Art. 42 para. 9.

¹⁰⁰ Technical rights include patents, utility models or semiconductor design rights; biological rights like plant breeder's rights belong in this category as well.

¹⁰¹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 18; BACHER, FS Schwenger, 115, 125-126; cf. also METZGER, *RabelsZ* 73 (2009), 842, 861-862.

¹⁰² Non-technical rights include trademarks, copyright, design rights or protection of intellectual property via competition law or tort law.

¹⁰³ Cf. LANGENECKER, 203; JANAL, FS Kritzer, 203, 214.

aspect of assessing the parties' information proximity is how much experience they have with the goods in question.¹⁰⁴ Generally, the goods' manufacturer has the most experience with the goods since it has unparalleled knowledge of how the goods work and how they were designed and it sometimes even holds technical IP rights encompassing the goods itself. Accordingly, manufacturing the goods in question indicates that an investigation of technical IP rights can be expected.¹⁰⁵ Yet, also intermediary sellers are expected to investigate for IP rights.¹⁰⁶ Usually, the investigation expected of an intermediary seller will be less detailed than that of a seller which manufactured the goods in question.¹⁰⁷ An intermediary seller can, however, be required to gather the information necessary to investigate for IP rights by contacting the manufacturer.¹⁰⁸

- 6.32. The parties' proximity to the relevant information increases proportionally to their experience with the specific market in the relevant State. Hence, a seller who has experience with supplying goods to the relevant State¹⁰⁹ or even has a branch there as well can be expected to investigate for less accessible IP rights. Furthermore, with specific regard to well-known trademarks, a party can primarily be expected to identify a well-known trademark if the party is part of the relevant sector of the public the trademark is well-known in – this includes, in particular, being part of the usual distribution chain for goods in that sector.
- 6.33. Sellers with extensive business operations and a high degree of sophistication, in particular with a dedicated legal department, can be expected to conduct more substantial and thus more onerous investigations.¹¹⁰
- 6.34. Based on economic considerations, a party fluent in the language the investigation is to be conducted in is more likely to be expected to investigate for IP rights than a party who would need to enlist translators or other costly support.¹¹¹
- 6.35. Where IP encumbrances do not result from the features of the goods themselves, but from a specific way the goods are used – in particular methods or process patents, the scope of the seller's expected investigation depends on the degree of knowledge it has of the specific use intended by the buyer.

¹⁰⁴ Cf. CISG Advisory Council Opinion No. 19, Standards and Conformity of the Goods under Article 35 CISG, Rapporteur SAIDOV, Rule 4 lit. f.

¹⁰⁵ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 15 (without restriction to technical rights); LANGENECKER, 191; BACHER, FS Schwenger, 115, 125; cf. CISG Advisory Council Opinion No. 19, Standards and Conformity of the Goods under Article 35 CISG, Rapporteur SAIDOV, Rule 4 lit. e.

¹⁰⁶ KRÖLL ET AL./KRÖLL, Art. 42 para. 33; BACHER, FS Schwenger, 115, 125. More reluctant METZGER, *LabelsZ* 73 (2009), 842, 854 (not without specific indications).

¹⁰⁷ Cf. KRÖLL ET AL./KRÖLL, Art. 42 para. 33; similar ACHILLES, Art. 42 para. 9; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 11; cf. also JANAL, FS Kritzer, 203, 215, 217; REHER, 161 (the closer the seller to the manufacturing process of the goods the more thorough of an investigation is required of it).

¹⁰⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 15; BACHER, FS Schwenger, 115, 125.

¹⁰⁹ MüKo BGB-GRUBER, Art. 42 CISG para. 19; BeckOGK-HACHEM, Art. 42 para. 18; FERRARI ET AL./FERRARI, Art. 42 CISG para. 15; BeckOK-SAENGER, Art. 42 para. 12; cf. CISG Advisory Council Opinion No. 19, Standards and Conformity of the Goods under Article 35 CISG, Rapporteur SAIDOV, Rule 5.2 lit. b.

¹¹⁰ RAUDA/ETIER, *VJ* 2000, 30, 47; cf. also BeckOGK-HACHEM, Art. 42 para. 18; CISG Advisory Council Opinion No. 19, Standards and Conformity of the Goods under Article 35 CISG, Rapporteur SAIDOV, Rule 4 lit. g.

¹¹¹ Cf. LANGENECKER, 204; but see JANAL, FS Kritzer, 203, 219 referring to the buyer's knowledge under Art. 42(2) lit. a.

- 6.36. In contrast, it is irrelevant for the scope of the investigation which party initiated the conclusion of the contract¹¹² or the use of the goods in the relevant State.¹¹³ Further, if the seller considers an investigation for IP rights unreasonable from a commercial perspective or impossible to conduct due to time constraints – for example in light of the low value of a first-time contractual relationship¹¹⁴ or the short period of time between contract conclusion and delivery¹¹⁵ – it has to exclude this duty by way of an agreement with the buyer.¹¹⁶
- 6.37. Additionally, all other relevant circumstances of the individual case must be taken into consideration to come to an appropriate outcome.
- 7. In order to determine a State of use under Article 42(1)(a) CISG, use is to be interpreted broadly and encompasses any action the buyer intends to take or to have taken with regard to the goods. Use includes transit of the goods through a State other than the State of their destination.**
- 7.1. Mirroring the territorial scope of IP rights, Article 42 holds the seller liable only for encumbrances based on IP law under the law of certain States. Depending on the circumstances of the case, these relevant States can be a State of use pursuant to Article 42 (1) lit. a, the buyer’s State pursuant to Article 42(1) lit. b, the seller’s State or a transit State.
- 7.2. Pursuant to Article 42(1) lit. a, the seller is liable for the goods’ encumbrance with IP rights or claims in the contemplated State of use. Article 42(1) lit. a encompasses States “where the goods will be resold or otherwise used”. Considering the provision’s purpose to protect the buyer’s interest in using the goods unimpaired by any IP rights or claims, the phrase “resold or otherwise used” should be interpreted broadly.¹¹⁷ It encompasses any action the buyer intends to be taken with regard to the goods. In line with the purpose of Article 42 to comprehensively protect the buyer’s interest in using the goods unimpaired, where the parties at the relevant time contemplate any action to be taken with regard to the goods in a particular State, the seller is liable for any impairment to this action based on IP in that State.
- 7.3. The parties are free to contemplate multiple States of use.¹¹⁸ It furthermore is possible to combine resale and use in this regard; the parties can thus contemplate reselling the goods in certain States and additionally using the goods in certain other States.¹¹⁹
- 7.4. Resale or use of the goods by anyone, including the buyer’s customers is encompassed by Article 42(1) lit. a.¹²⁰ The provision’s wording contains no limitation to resale or use specifically by the buyer. Instead, the wording refers only to the act of reselling and using without even mentioning the acting party. The only reasonable inference that can be drawn

¹¹² METZGER, *RabelsZ* 73 (2009), 842, 854; MüKo BGB-GRUBER, Art. 42 CISG para. 19; PILTZ, para. 5–132; but see MüKo HGB-BENICKE, Art. 42 CISG para. 19.

¹¹³ But see MüKo HGB-BENICKE, Art. 42 CISG para. 20-21.

¹¹⁴ Some authors reject a duty to investigate in these cases right away, cf. KRÖLL ET AL./KRÖLL, Art. 42 para. 32; JANAL, FS Kritzer, 203, 216-217; in the same direction also VANDUZER, 4 Canadian International Lawyer (2001), 187.

¹¹⁵ Inclined to reject a duty to investigate in these cases MüKo BGB-GRUBER, Art. 42 CISG para. 19.

¹¹⁶ Regarding this possibility cf. SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 15; cf. also MüKo BGB-GRUBER, Art. 42 CISG para. 26.

¹¹⁷ LANGENECKER, 159-160.

¹¹⁸ KRÖLL ET AL./KRÖLL, Art. 42 para. 17; MüKo BGB-GRUBER, Art. 42 CISG para. 14; WITZ/SALGER/LORENZ/SALGER, Art. 42 para. 6; JANAL, FS Kritzer, 203, 220; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 14; but see SHINN, 2 Minn. J. Global Trade (1993), 115, 130, cf. also 128 note 61; similar ENDERLEIN/MASKOW/STROHBACH, Art. 42 para. 6 (“relating to one State only each”); ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 42, 181 (“applies only to one country”).

¹¹⁹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 10; HONSELL/MAGNUS, Art. 42 para. 10; FERRARI ET AL./FERRARI, Art. 42 CISG para. 11; RAUDA/ETIER, VJ 2000, 30, 51.

¹²⁰ Cf. SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 10. This result is also implied by the example given by LANGENECKER, 153.

from this open wording is that anyone can resell or use the goods in terms of Article 42(1) lit. a. Accordingly, the Secretariat Commentary acknowledges that “[i]t will even be the case that the buyer’s subpurchasers may take the goods to a third country for use”.¹²¹ Further, when reselling the goods, the buyer is potentially liable in relation to its customer for the goods’ freedom from encumbrance in the State that is relevant to this customer. As a consequence, in relation to the seller, the buyer’s primary interest is that the goods are free from encumbrances in the State they are ultimately used by its customer. The buyer’s interest in the goods’ freedom from encumbrance in the State where the resale takes place is but a mere reflex of this primary interest. Hence, a reasonable interpretation of Article 42(1) lit. a must take into account this primary interest of the buyer. Against this background, the distinction between the State “where” and the State “whereto” the goods are resold¹²² is accurate but irrelevant, since the customer’s State is not just the State “whereto” the goods are sold by the buyer, but also a State “where” the goods are resold if the customer decides to sell on the goods again or the customer’s State is a State “where” the goods are “used” if the customer decides to use the goods itself.¹²³

- 7.5. In line with the appropriate broad interpretation, use includes all actions the buyer intends to be taken with regard to the goods – be it by the buyer or somebody else. Accordingly, transit is use of the goods, even if initiated by the seller. The proponents of the opposing view who exclude encumbrances in the transit State from the scope of Article 42 mostly offer no reason for their view.¹²⁴ The finding that transit is use and thus encumbrances in the transit State can trigger the seller’s liability under Article 42 is confirmed by the fact that in certain jurisdictions already mere transit can infringe IP rights (even without the goods being put into circulation)¹²⁵ and customs authorities even can take measures already based on the suspicion of infringement.¹²⁶ Excluding such encumbrances resulting from transit from the scope of Article 42 would result in unwarranted gaps in the protection of the buyer’s interest in utilising the goods unhindered by encumbrances.
- 7.6. If transit is contemplated by the parties, the seller thus is liable for IP encumbrances in the transit State by virtue of direct application of Article 42(1) lit. a. By way of example, the parties might make reference to an ICC Incoterms® F- or D-clause in their contract, requiring the seller to deliver the goods to a particular place whereas the buyer is responsible for the goods’ transport from that place on. If the place named in reference to the clause lies in a State that has not already been contemplated as a State of use, transit through that State is contemplated, and the seller is liable for encumbrances there. The situation is comparable if the parties opt for a C-clause under which the seller is responsible for arranging carriage of

¹²¹ Secretariat Commentary, Art. 40 para. 4.

¹²² OGH 12 September 2006, CISG-online 1364 (the OGH was not in the position to render a final and binding decision but had to refer the dispute back to the court of first instance); cf. also STAUDINGER/MAGNUS, Art. 42 para. 15; HONSELL/MAGNUS, Art. 42 para. 10; BeckOGK-HACHEM, Art. 42 para. 20; LANGENECKER, 160-161.

¹²³ BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 14 note 1650 *in fine*.

¹²⁴ FERRARI ET AL./FERRARI, Art. 42 CISG para. 13; MüKo BGB-GRUBER, Art. 42 para. 11; MüKo HGB-BENICKE, Art. 42 CISG para. 13; PILTZ, para. 5–129.

¹²⁵ EU: Article 9(4) Regulation (EU) 2017/1001 of 14 June 2017 on the European Union trade mark and Article 10(4) Directive (EU) 2015/2436 of 16 December 2015 to approximate the laws of the Member States relating to trade marks; the provision is to be transposed into the member states’ trademark laws by 14 January 2019 pursuant to Art. 54(1) Directive (EU) 2015/2436; cf. also International Association for the Protection of Intellectual Property, Border measures and other Means of Customs Intervention against Infringers (Q208), available at <http://aippi.org/committee/border-measures-and-other-means-of-customs-intervention-against-infringers> (19 of the 41 respondents reported that pursuant to their domestic laws, goods in transit can be seized based on intellectual property infringement).

¹²⁶ Article 17(1) and 18(1) in conjunction with Article 2(7)(a) Regulation (EU) No. 608/2013; cf. RINNERT, GRUR 2014, 241, 243 (“the lowest stage of likelihood”).

the goods also after the risk passes to the buyer. Contemplation can also be based on practices or usages established between the parties or international trade usages.¹²⁷

- 7.7. If transit through the State in question was not contemplated by the parties, direct application of Article 42 is not possible. If the seller does, however, unilaterally determine the transit route, thereby choosing the transit State, Article 42 nevertheless applies either as a general principle in terms of Article 7(2) or by way of analogy.¹²⁸ If transit was not contemplated, the buyer's interest in the goods' freedom from encumbrances in the transit State is a reflex of its interest in freely using the goods in the contemplated State of use or its own State the goods are destined for. Further, the seller is not unduly burdened if it is expected to investigate for IP rights in a transit State that was not contemplated but unilaterally chosen by itself. Also with regard to the territorial limitation, the seller even is in a better position to assess its liability risk if it unilaterally chooses the transit State compared to cases of mere contemplation of the State of use intended by the buyer. The balance of interests in this regard – if at all – shifts in favour of the buyer, not the seller. Where the relevant infringement is not based on mere transit but on the goods being put into circulation in the transit State, the seller is liable if the seller unilaterally decides to put the goods into circulation. In contrast, the seller is not liable where the buyer puts the goods into circulation in the transit State without the parties having contemplated so when concluding the contract.
- 7.8. If, on the other hand, the transit State is unilaterally chosen by the buyer, application of Article 42 is not justified. Yet, if in this situation the seller brings the goods into circulation without the buyer's agreement – for example to repackage them – and thereby infringes an IP right resulting in loss of the goods, the buyer is discharged from its obligation to pay the purchase price under Article 66 *in fine*.

8. Contemplation by the parties of a State of use only requires that the seller can discern the buyer's intention to use the goods in one or more specific States from the circumstances. In particular, the parties are considered to have contemplated a State of use if

- a. the buyer is active only in the market of that State and the seller could not have been unaware of this; or**
- b. under the contract,**
 - i. transportation of the goods to or through that State is envisaged;**
 - ii. instruction manuals or other documents accompanying the goods are to be in a specific language other than the buyer's language and this language is spoken only in that State;**
 - iii. the required design of the goods points to that State; or**
 - iv. mandatory or voluntary certificates that the goods are required to have are relevant only in that State.**

¹²⁷ Where a seller and a buyer concluded a string of contracts for the delivery of comparable or identical goods that were always shipped via a particular State, this can amount to a practice established between the parties pursuant to Article 9(1) and result in the respective State being contemplated as a State of use. The same applies where certain goods shipped from one State to another by the means chosen by the parties are always transported via a particular State this might constitute an international trade usage that results in contemplation of the transit State as a State of use if the requirements of Article 9(2) are met. Depending on the sector in which the parties are active, examples might include transport of cargo via ship from Asia to Europe through the Suez Canal in Egypt or (for a different route) the Panama Canal. In certain cases, also transport via aeroplane through Schiphol airport in Amsterdam, the Netherlands or through Frankfurt airport, Germany might be customary.

¹²⁸ Cf. SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 14. Differently BeckOGK-HACHEM, Art. 42 para. 25 (violation of duty to diligently organize transport of the goods – Article 66, however, only encompasses special risks associated with the transport and not defects of the goods; also there is no need to remove these cases from the carefully balanced system of Articles 42 and 43); REHER, 148 (in favour of a duty of the seller to warn the buyer of the goods' encumbrance in the transit State "at most" if the seller has actual knowledge of the encumbrance).

- 8.1. The State of use is only relevant pursuant to Article 42(1) lit. a “if it was contemplated by the parties at the time of the conclusion of the contract that the goods would be resold or otherwise used in that State”. Based on the principle of party autonomy in Article 6, the parties can agree that a particular State is relevant as a State of use. Likewise, practices or usages applicable by virtue of Article 9(1) or international trade usages applicable pursuant to Article 9(2) can result in a particular State being contemplated as a State of use. With regard to the minimal requirements of the notion of contemplation, there is agreement that the term “contemplated” in the context of Article 42(1) lit. a requires an objectively manifested intention of the buyer that the goods will be resold or used in the State in question.¹²⁹
- 8.2. For the seller, however, it is sometimes required that he agrees to the buyer’s intended use,¹³⁰ sometimes that he has actual knowledge¹³¹. The majority of authors rightly consider it sufficient that the seller can discern from the circumstances of the contract conclusion that the buyer intends to use the goods in the respective State.¹³² The CISG consistently uses the term “agree” if an agreement of the parties is required.¹³³ The fact that the term “agree” is not used in Article 42(1) lit. a thus strongly indicates that “contemplated by the parties” does not mean “agreed upon by the parties”.¹³⁴ Further, considering a seller to have contemplated circumstances it was not positively aware of is not easy to square with the natural meaning of the term “contemplate”.¹³⁵ Requiring actual knowledge, however, always burdens the party relying on such knowledge with an onus of proof almost impossible to meet.¹³⁶ Putting such an onus on the buyer in the framework of Article 42 would not lead to adequate results. In line with this, many authors who require an agreement or actual knowledge with regard to Article 42(1) lit. a are forced to objectify their purely subjective requirements as well.¹³⁷ This widespread consensus that it is necessary to determine whether the parties contemplated the State of use based on objective criteria confirms that it is sufficient that the seller can discern the State of use from the circumstances. Further support for this position can be found in a comparison of Article 42(1) lit. a and Article 35(2) lit. b. The prevailing opinion interprets Article 35(2) lit. b as requiring that the seller can discern the particular purpose from the circumstances.¹³⁸ Despite the differences in the provisions’ wordings, reasonably interpreted, both provisions thus require that the seller can discern the relevant aspect from the circumstances. This outcome is also appropriate since both provisions have the purpose

¹²⁹ MüKo BGB-GRUBER, Art. 42 CISG para. 15; KRÖLL ET AL./KRÖLL, Art. 42 para. 16; ACHILLES, Art. 42 para. 5; cf. SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 11.

¹³⁰ JANAL, FS Kritzer, 203, 221; RAUDA/ETIER, VJ 2000, 30, 52; cf. also SHINN, 2 Minn. J. Global Trade (1993), 115, 128.

¹³¹ BeckOGK-HACHEM, Art. 42 para. 21; probably also ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 42, 181 (“they must have taken this possibility into account, and not only the buyer but also the seller”).

¹³² SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 11; MüKo HGB-BENICKE, Art. 42 CISG para. 9; KRÖLL ET AL./KRÖLL, Art. 42 para. 16; ACHILLES, Art. 42 para. 5; jurisPK BGB-BAETGE, Art. 42 CISG para. 9; cf. also MüKo BGB-GRUBER, Art. 42 para. 15 (“sufficiently discernible”); STAUDINGER/MAGNUS, Art. 42 para. 16 (“sufficient indication”); METZGER, *RabelsZ* 73 (2009), 842, 858 (indication by the buyer sufficient); PRAGER, 158 (“sufficient indication”); cf. also ZELLER, 15 VJ (2011), 289, 293 (Art. 42(1) lit. b applies if “the seller does not know or could not reasonably have known the place where the goods are to be ultimately sold”).

¹³³ Articles 9(1); 29(1), (2); 35(2); 41 sentence 1; 58(3); 65(1); 96.

¹³⁴ BeckOGK-HACHEM, Art. 42 para. 21.

¹³⁵ BeckOGK-HACHEM, Art. 42 para. 21.

¹³⁶ See for the parallel question whether “made known” in Article 35(2) lit. b requires actual knowledge of the seller SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 35 para. 23.

¹³⁷ JANAL, FS Kritzer, 203, 221 (the example given is that the parties agree upon shipment to a country other than the buyer’s place of business); RAUDA/ETIER, VJ 2000, 30, 52; BeckOGK-HACHEM, Art. 42 para. 21.

¹³⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 35 para. 23 with further references; but see BeckOGK-HACHEM, Art. 42 para. 21.

of protecting the buyer's interests in using the goods unimpaired from any legal (Article 42(1) lit. a) or factual (Article 35(2) lit. b) hindrances. The standard of knowledge the seller is required to have of the intended use should accordingly be the same. Finally, to achieve the purpose of Article 42, that is to allow the seller to assess its liability risk, it is not necessary that the seller actually assessed its liability risk correctly. A seller that objectively is in the position to accurately assess its liability risk but fails to do so does not deserve to be protected from this failure.

- 8.3. Usually, some kind of statement or behaviour of the buyer will be the basis for an indication that the goods will be resold or otherwise used in a particular State. Accordingly, it seems appropriate to seek guidance in the provision dealing with the interpretation of the parties' statements and other conduct, that is Article 8.¹³⁹ In order to assess whether a State of use was contemplated by the parties, it thus is decisive whether a reasonable person in the shoes of the seller should have become aware of the use intended by the buyer on the basis of the contract and the given circumstances.¹⁴⁰ Relevant in this regard are the factors listed in Article 8(3), most importantly the parties' negotiations in general and the agreed delivery modalities specifically.¹⁴¹ Since Article 42(1) lit. a requires that the parties contemplated the State of use at the time of contract conclusion, only circumstances existing at or before that point in time can indicate to the seller that the goods will be resold or otherwise used in a particular State. The parties' subsequent behaviour can only be relevant to confirm their understanding at the time of contract conclusion. Furthermore, in line with Article 9, usages known to or practices established between the parties can be relevant.
- 8.4. The threshold for contemplation by the parties in the sense of Article 42(1) lit. a should not be set overly high with regard to a single State of use. If no State of use is contemplated pursuant to Article 42(1) lit. a, the seller is liable for encumbrances in the buyer's State pursuant to Article 42(1) lit. b. Therefore, the decisive question a reasonable seller would ask is whether it is more likely that the goods are to be used in the potential State of use or in the buyer's State. The seller's interests are not affected by this approach. Abstractly, it makes no difference to the seller whether it is liable for the goods' freedom from encumbrances in the buyer's State or in a State of use. However, if the circumstances point to multiple States as States of use, the seller's interests are affected. Accordingly, in order to contemplate multiple States of use, it is not sufficient that, considered in isolation, the balance of probabilities tips in favour of the potential States of use. Instead, the threshold must be higher, that is further or more specific indications are required. This higher threshold is for example met if a reasonable seller would conclude from the circumstances that one of the States the indications point to is a transit State whereas the other is the State the goods are ultimately destined for in which the buyer intends to resell the goods to a customer located in a third State where the goods will be used. In any case, the buyer is well advised to expressly make the seller aware of its intention in a provable way not only, but specifically in cases in which it intends to use the goods in multiple States.¹⁴²

¹³⁹ Cf. BeckOK-SAENGER, Art. 42 para. 9; FERRARI ET AL./FERRARI, Art. 42 CISG para. 10; JANAL, FS Kritzer, 203, 221; BELINE, 7 Univ. of Pitts. Journal Tech. Law & Pol'y (2007) 6. Cf. also SCHLECHTRIEM/SCHWENZER/FOUNTOULAKIS, Art. 73 para. 36 (with regard to Article 73(3)).

¹⁴⁰ SCHLECHTRIEM/SCHWENZER/FOUNTOULAKIS, Art. 73 para. 36 (with regard to Article 73(3)); cf. also BELINE, 7 Univ. of Pitts. Journal Tech. Law & Pol'y (2007) 6 ("anything that would give the seller reasonable notice of the States in which the buyer would be considering use of the goods").

¹⁴¹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 11; MüKo HGB-BENICKE, Art. 42 CISG para. 9; KRÖLL ET AL./KRÖLL, Art. 42 para. 16; ACHILLES, Art. 42 para. 5; jurisPK BGB-BAETGE, Art. 42 CISG para. 9.

¹⁴² Cf. SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 11; BeckOGK-HACHEM, Art. 42 para. 22.

- 8.5. Finally, as indicated by the wording of Article 42(1) lit. a (“contemplated [...] *that* the goods would be [...] used”, *emph. add.*),¹⁴³ the parties are not required to contemplate any specific kind of use but merely *that* as opposed to *how* the goods will be used in the State in question. Accordingly, it is sufficient that the parties contemplate at least one use of the goods in the State in question to trigger the seller’s liability for the goods’ freedom from encumbrances in that State with regard to all potential uses. If the seller wants to limit its liability to certain specific uses only, it must do so by mutual agreement.
- 8.6. Applying these considerations, the parties have contemplated a State of use if
- the buyer is active only in the market of that State and the seller could not have been unaware of this;¹⁴⁴ or
 - under the contract
 - transportation of the goods to or through that State is envisaged;¹⁴⁵
 - instruction manuals or other documents accompanying the goods are to be in a specific language other than the buyer’s language and this language is spoken only in that State;¹⁴⁶
 - the required design of the goods¹⁴⁷ points to that State;¹⁴⁸ or
 - mandatory or voluntary certificates the goods are required to have are relevant only in the State in question.
- 8.7. With the exception of the place of delivery,¹⁴⁹ all of the above factors require further indications if they point to multiple States for these States to be contemplated as States of use.¹⁵⁰
- 8.8. Pursuant to Article 42(1) lit. b, the buyer’s State is only relevant subsidiarily if no State of use was contemplated at the relevant time.¹⁵¹ In this regard, the operation of this provision thus is similar to the ordinary purpose the goods must be fit for pursuant to Article 35(2) lit. a if no particular purpose was made known to the seller in terms of Article 35(2) lit. b.¹⁵² If the buyer has multiple places of business, Article 10 determines which of multiple places of business is the relevant one.

¹⁴³ This equally applies to the authentic French (“[...] *si les parties ont envisagé au moment de la conclusion du contrat que les marchandises seraient revendues ou utilisées dans cet Etat [...]*”, *emph. add.*) and Spanish (“[...] *si las partes hubieren previsto en el momento de la celebración del contrato que las mercaderías se revenderían o utilizarían en ese Estado [...]*”, *emph. add.*) language versions as well as the non-authentic Dutch (“[...] *indien partijen op het tijdstip waarop de overeenkomst werd gesloten, onder ogen hebben gezien dat de zaken zouden worden doorverkocht of anderszins gebruikt in die Staat [...]*”, *emph. add.*) and German (“[...] *wenn die Parteien bei Vertragsabschluss in Betracht gezogen haben, daß die Ware dort weiterverkauft oder verwendet wird [...]*”, *emph. add.*) translations.

¹⁴⁴ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 11.

¹⁴⁵ KRÖLL ET AL./KRÖLL, Art. 42 para. 16; MüKo BGB-GRUBER, Art. 42 CISG para. 15; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 11; MüKo HGB-BENICKE, Art. 42 CISG para. 9; JANAL, FS Kritzer, 203, 221; METZGER, RabelsZ 73 (2009), 842, 858; REHER, 148; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 14. But see also BeckOK-SAENGER, Art. 42 para. 9 (considering the place of delivery irrelevant).

¹⁴⁶ KRÖLL ET AL./KRÖLL, Art. 42 para. 16; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 14.

¹⁴⁷ For example power plugs of electronic devices.

¹⁴⁸ Cf. STAUDINGER/MAGNUS, Art. 42 para. 17; RAUDA/ETIER, VJ 2000, 30, 52 (considering the nature of the goods relevant).

¹⁴⁹ But see RAUDA/ETIER, VJ 2000, 30, 52; STAUDINGER/MAGNUS, Art. 42 para. 17; FERRARI ET AL./FERRARI, Art. 42 CISG para. 10 (requiring additional corroboration).

¹⁵⁰ For the buyer’s activity in different markets: KRÖLL ET AL./KRÖLL, Art. 42 para. 16; BeckOGK-HACHEM, Art. 42 para. 21; JANAL, FS Kritzer, 203, 222; METZGER, RabelsZ 73 (2009), 842, 858; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 14; but see MüKo HGB-BENICKE, Art. 42 CISG para. 9; ZELLER, 15 VJ (2011), 289, 296.

¹⁵¹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 12.

¹⁵² KRÖLL ET AL./KRÖLL, Art. 42 para. 18; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 12.

8.9. Article 42(1) makes no reference to the seller's State. Accordingly, there are only three possibilities how the seller can be liable for encumbrances in its State: first, if the seller's State was contemplated as a State of use;¹⁵³ second, if IP rights existing in the State relevant in terms of Article 42(1) lit. a or b are enforced in the seller's State; and third, if IP rights protected in the seller's State take effect indirectly via the applicable law in the relevant State.¹⁵⁴ This corresponds with the general interests of the buyer since it is generally only in these situations that the buyer is interested in the goods' freedom from IP encumbrances in the seller's State.¹⁵⁵

9. States in the sense of Article 42(1)(a) and (b) CISG include federal States together with all their constituent territories but not associations of States. If, however, the parties contemplate that the goods will be used only in a specific area of the State of use, the buyer cannot invoke encumbrances in different areas as a basis of the seller's liability.

9.1. Pursuant to Article 42(1) lit. a and b, the seller is liable for encumbrances in "the State" of use or of the buyer. The capitalised use of the term "State" in this provision evidences that the meaning of this term here is identical with the remaining capitalised references to the term "State" throughout the CISG. As is confirmed in particular by the CISG's Preamble ("The States Parties to this Convention"), Article 1(1) lit. a ("when the States are Contracting States") and Article 91(3) ("This Convention is open for accession by all States"), "States" as referred to in the CISG are the entities that are or can become a party to the CISG as an international convention. This includes all entities recognised as States under public international law.¹⁵⁶ This notion thus includes federal States together with all their constituent territories. Further, the notion of State in the sense of Article 42(1) lit. a and b does not include associations but rather States only.¹⁵⁷ Otherwise, a seller that sells to a buyer that has its place of business in the European Union would – if the parties did not contemplate any State of use – be liable for encumbrances in the entire European Union,¹⁵⁸ which would unduly weaken the territorial limitation of Article 42(1).

9.2. Certain IP rights are protected only in part of the relevant State's territory. Examples include trademarks that are established not by registration but by use in the relevant market¹⁵⁹ or in federal States when rights are protected under State law only with effect for the respective individual State.¹⁶⁰ In Article 93, the CISG distinguishes between the "Contracting State" and its "territorial units". Based on the provision's reference to "State", the seller thus is liable for encumbrances existing only in parts of the State of use or the buyer's State, even when the parties just contemplated use of the goods in the State as such without concretely contemplating using the goods in that specific part of the State.¹⁶¹ The same applies *mutatis mutandis* to the seller's liability pursuant to Article 42(1) lit. b if the buyer's place of business is located in a part of the buyer's State while the IP in question is only protected in another part of this State. If, on the other hand, the parties did contemplate using the goods only in a

¹⁵³ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 13; LANGENECKER, 163; PRAGER, 160; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 16.

¹⁵⁴ BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 16.

¹⁵⁵ Cf. RAUDA/ETIER, VJ 2000, 30, 55.

¹⁵⁶ SCHLECHTRIEM/SCHWENZER/SCHROETER/FERRARI (7th German edition), Art. 91.

¹⁵⁷ Cf. for the parallel debate regarding the accession of associations of States to the CISG in the framework of Article 91(3): pro SCHROETER, FS Kritzer, 425, 467-469; contra STAUDINGER/MAGNUS, Art. 91 para. 5; BASEDOW, FS Schlechtriem, 165, 180-181.

¹⁵⁸ Cf. LANGENECKER, 158.

¹⁵⁹ Germany: § 4 No. 2 MarkenG; FEZER, § 4 para. 129.

¹⁶⁰ US: SHINN, 2 Minn. J. Global Trade (1993), 115, 128 note 63.

¹⁶¹ Cf. SHINN, 2 Minn. J. Global Trade (1993), 115, 129; but see LANGENECKER, 156; REHER, 150.

specific part of the State of use, the buyer gave the seller reason to conclude that the goods were to be used only in the partial territory. Thereby, the buyer assumes the risk of encumbrances outside of this partial territory. Invoking encumbrances existing only in another part of the State would hence constitute contradictory conduct prohibited by the principle of *venire contra factum proprium*.¹⁶² Accordingly, the buyer's conduct and statements indicating the use of the goods in a partial territory must be interpreted as triggering contemplating use only in that partial territory thereby effectively limiting the seller's liability to this part only.¹⁶³

9.3. The tendencies of harmonisation in the field of IP law result in an increasing number of IP rights that are protected not just in one but in several States.¹⁶⁴ Since generally treaties and conventions establishing IP rights with territories of protection encompassing the respective State parties are considered part of these States' law, IP rights based on legislative acts with effect for several States exist "under the law" of the State of use or the buyer's State respectively as referred to in Article 42(1) lit. a and b. The same applies to IP protected under the law of supranational organisations of States like the European Union.

9.4. The law relevant under Article 42(1) lit. a and b is determined by virtue of the rules of international private law of the relevant State.¹⁶⁵

10. The seller's knowledge and the identity of the relevant States are assessed at the time of conclusion of the contract. Whether the goods are encumbered with IP rights or claims under Article 42 CISG is assessed at the time of the passing of risk based on the general principle enshrined in Article 36 CISG. In the case of delivery prior to the agreed date, the seller is entitled to cure any encumbrance until the agreed date in accordance with the general principle stipulated in Article 37 CISG.

10.1. The relevant time to assess the parties' knowledge of the encumbrance under Article 42 is the time of the conclusion of the contract as per Article 23. If the parties become aware of the IP right after this point in time, they are not liable pursuant to Article 42, but both of them can be subject to a duty to inform the other party accordingly based on the parties' general duty to cooperate. Likewise, the relevant time to determine the relevant State under Article 42(1) also is the time of the conclusion of the contract. Subsequent changes do not affect the seller's liability, neither with regard to the intended State of use¹⁶⁶ nor to the buyer's relevant place of business.¹⁶⁷ It flows from the general principle of party autonomy as provided for in Article 6, however, that the parties are free to change the relevant territories after contract conclusion by way of mutual agreement¹⁶⁸ – as opposed to mere contemplation.

¹⁶² Cf. for this general principle SCHLECHTRIEM/SCHWENZER/SCHWENZER/HACHEM, Art. 7 para. 32.

¹⁶³ RAUDA/ETIER, VJ 2000, 30, 53-54; cf. for the same result LANGENECKER, 156; REHER, 150 (teleological restriction of the term State).

¹⁶⁴ For example, the European Union Trade Mark (Art. 1(2) Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark) and the European Union Design in the European Union (Art. 1(3) Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs) or the unitary patent for Switzerland and Liechtenstein (Art. 4(1) 1978 Treaty between the Swiss Confederation and the Principality of Liechtenstein on Patent Protection).

¹⁶⁵ MüKo BGB-GRUBER, Art. 42 CISG para. 12; BeckOK-SAENGER, Art. 42 CISG para. 8; PILTZ, para. 5–129; HONSELL/MAGNUS, Art. 42 para. 8; STAUDINGER/MAGNUS, Art. 42 para. 15; REHER, 146; PRAGER, 159-160; but see KREMER, 207-208 (only substantive law of the relevant State applies).

¹⁶⁶ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 11; LANGENECKER, 162-163; PRAGER, 158; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 19.

¹⁶⁷ KRÖLL ET AL./KRÖLL, Art. 42 para. 19; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 19.

¹⁶⁸ ACHILLES, Art. 42 para. 6.

- 10.2. Article 42 does not expressly stipulate the time relevant to assess whether the goods are encumbered with IP rights or claims. Although many authors infer from the reference to the seller's delivery obligation that the time of delivery is the relevant time to assess whether the goods are encumbered,¹⁶⁹ this inference is not self-evident. In comparison, the parallel provision dealing with non-conforming goods, Article 35(1) also provides that "the seller must deliver goods" that conform to the contractual requirements. With regard to non-conformities, however, Article 36(1) defines the time relevant to determine whether the goods conform to the contract as "the time when the risk passes to the buyer". Article 36, however, expressly refers to "any lack of conformity" and thus does not apply directly to encumbrances of the goods pursuant to Article 41 and 42. Encumbered goods are not encompassed by references to goods not conforming to the contract in the CISG (*see infra* para. 105).
- 10.3. This gap regarding the relevant time to assess the seller's liability for IP encumbrances should be filled by applying the general principle enshrined in Article 36(1). Accordingly, the time of the passing of risk is the relevant point in time to determine the seller's liability for encumbrances. An analysis of the drafting history suggests that the view that delivery of the goods is the relevant time to assess the seller's liability for encumbrances results from a more or less unreflecting adoption of the legal situation under the ULIS¹⁷⁰ as the CISG's predecessor without any further discussion of the issue during the CISG's drafting phase.¹⁷¹
- 10.4. Under the CISG, however, the ULIS' system was changed significantly – most importantly for the issue at hand, the passing of risk was linked to handing over of the goods instead of delivery¹⁷² and specific rules for delivery by placing the goods at the buyer's disposal were implemented.¹⁷³ The passing of risk pursuant to Articles 67 to 69 is linked to the fact-based concept¹⁷⁴ of handing over of the goods.¹⁷⁵ While in most situations the time of delivery corresponds to the time of handing over of the goods and thus the time the risk passes,¹⁷⁶ there are situations in which delivery is effected before the risk passes:¹⁷⁷ If the goods are to be put at the buyer's disposal in line with Article 31 lit. b or c, delivery is effected if the goods are at the buyer's disposal even if they are still in the custody of the seller. The risk,

¹⁶⁹ HERBER/CZERWENKA, Art. 42 para. 4; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 8; MüKo BGB-GRUBER, Art. 42 CISG para. 17; MüKo HGB-BENICKE, Art. 42 CISG para. 5; KRÖLL ET AL./KRÖLL, Art. 42 CISG para. 23; BeckOK-SAENGER, Art. 42 para. 11; RAUDA/ETIER, VJ 2000, 30, 42; REHER, 124; PRAGER, 150; but see ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 42, 180; cf. also ENDERLEIN/MASKOW/STROHBACH, Art. 41 para. 6 (considering the time of contract conclusion relevant).

¹⁷⁰ The time relevant to assess the seller's liability for encumbrances in terms of Article 52 ULIS was not expressly stipulated as well (ZHANG, 145; PRAGER, 79). During the drafting conference in The Hague, it was stated that the relevant time was the time of delivery, and that further specification of this point was superfluous (PRAGER, 79). Accordingly, it was generally assumed that the time of delivery was the relevant time to assess the seller's liability pursuant to Article 52 ULIS (DÖLLE/NEUMAYER, Art. 52 para. 8). Notably, however, under Article 97(1) ULIS, the passing of risk was linked to delivery (SCHLECHTRIEM/SCHWENZER/HACHEM, Art. 69 para. 1). Delivery, in turn, was defined as "the handing over of goods which conform with the contract" by Article 19(1) ULIS, implementing the French concept of *délivrance* (GALSTON/SMIT/SCHLECHTRIEM, 6–7; AUDIT, 179).

¹⁷¹ PRAGER, 150.

¹⁷² SCHLECHTRIEM/SCHWENZER/HACHEM, Intro to Art. 66-70 para. 13.

¹⁷³ Cf. HONNOLD/FLECHTNER/HONNOLD, Art. 31 para. 210.

¹⁷⁴ SCHWENZER/HACHEM/KEE, para. 38.40.

¹⁷⁵ SCHWENZER/HACHEM/KEE, para. 38.45; SCHLECHTRIEM/SCHWENZER/HACHEM, Intro to Arts. 66-70 para. 16-17; Art. 69 para. 1.

¹⁷⁶ SCHLECHTRIEM/SCHWENZER/WIDMER LÜCHINGER, Art. 31 para. 9. Most importantly, if the contract involves carriage of the goods, both delivery (Article 31 lit. a) and the passing of risk (Article 67(1)) coincide with handing over of the goods to the first carrier.

¹⁷⁷ SCHLECHTRIEM/SCHWENZER/WIDMER LÜCHINGER, Art. 31 para. 9; SCHLECHTRIEM/SCHWENZER/HACHEM, Art. 69 para. 1.

however, only passes once the buyer physically takes over the goods or breaches the contract by not doing so as stipulated by Article 69(1).

- 10.5. Against this background, an analysis of the parties' interests should primarily inform determining the relevant point in time to assess the seller's liability for encumbrances. The buyer is interested in the goods being free from IP encumbrances at the time it takes possession of the goods, that is at the time the goods are physically handed over to it. The seller's interest, on the other hand, is that the point in time at which its liability is assessed is as late as possible. Until the relevant point in time, the seller can still remove any encumbrances and thereby avoid being held liable by the buyer.¹⁷⁸ Furthermore, the seller is not unreasonably burdened by the risk of any new encumbrances arising after the conclusion of contract since its liability is limited to those encumbrances it knew or could not have been unaware of at the time of contract conclusion. Consequently, the time of the passing of risk, as opposed to the delivery, is the relevant point in time to determine whether any encumbrances of the goods exist the seller is liable for.
- 10.6. Strictly drawing the line at the time of the passing of risk to delimitate the seller's liability would, however, unduly exclude liability for any claims raised after the passing of risk.¹⁷⁹ Applying the general principle derived from Article 36(1) *in fine* offers a solution; this article provides that the seller is liable for non-conformities which exist at the time the risk passes, "even though the lack of conformity becomes apparent only after that time". The underlying rationale is that while the non-conformity did not exist in its final form at the relevant time, the non-conformity was already inherent to the goods.¹⁸⁰ This rationale also applies to claims raised after the passing of risk.¹⁸¹ If the claim is based on factual circumstances existent at the relevant time, it was already inherent to the goods and the seller should be held liable for it. Accordingly, it must be assessed whether the circumstances, on which the encumbrance is based, exist at the relevant time in contrast to the encumbrance itself.¹⁸² In other words, the seller is liable for all claims that *could have been* raised identically at the relevant time, even if they *were* raised only after this point in time. With regard to unfounded claims, it is not decisive whether the circumstances *de facto* existed at the time of the passing of risk but rather whether they existed at that time according to the allegations raised by the third party so that the unfounded claim could have been raised at the relevant time already.¹⁸³ A similar logic applies with regard to the goods' encumbrance with IP rights in a State of use or the buyer's state if, at the time of the passing of risk, the goods have not yet reached this State and thus at this time do not yet infringe the relevant IP right. Also in this scenario, the encumbrance is already inherent in the goods as it is clear that once they reach the contemplated State of use or (subsidiarily) the Buyer's state, they will infringe the relevant IP right.
- 10.7. In certain scenarios, it can be warranted to hold the seller liable for encumbrances coming into existence only after the relevant time to assess its liability. For example, the seller might

¹⁷⁸ PILTZ, para. 5–122; HONNOLD/FLECHTNER/HONNOLD, Art. 37 para. 245.1, Art. 41 para. 266 note 9; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 8 (regarding Art. 42).

¹⁷⁹ REHER, 124. In favour of such limitation of the seller's liability ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 41, 179; cf. also ENDERLEIN/MASKOW/STROHBACH, Art. 41 para. 5.

¹⁸⁰ OLG Linz 23 January 2006, CISG-online 1377.

¹⁸¹ Cf. ACHILLES, Art. 41 para. 5 (referring to Art. 36(2) instead of Art. 36(1) *in fine*).

¹⁸² Cf. SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 16; BeckOK-SAENGER, Art. 41 para. 7; MüKo HGB-BENICKE, Art. 41 CISG para. 13; MüKo BGB-GRUBER, Art. 41 CISG para. 16, Art. 42 para. 17; KRÖLL ET AL./KRÖLL, Art. 42 para. 29; ZHANG, 80.

¹⁸³ Too far-reaching RAUDA/ETIER, VJ 2000, 30, 43 (seller liable for "all claims whether or not they have a foundation and whether or not they are made before or after" the relevant time).

violate or cancel existing license agreements with the right holder causing the goods to infringe the respective IP right or register a trademark in the relevant State encompassing the goods after the relevant time.¹⁸⁴ Article 36(2) addresses this situation with regard to non-conformities and should be applied as a general principle in terms of Article 7(2) to encumbrances as well. The seller is under a general obligation to cooperate by loyally facilitating the success of the contractual relationship with the buyer and refraining from any actions preventing this success.¹⁸⁵ The success of the contractual relationship can be hindered by physical deterioration of the goods resulting in a non-conformity as well as deteriorations of the buyer's legal position. Likewise, with regard to the related issue of breach of a guarantee of durability also addressed in Article 36(2), there is no reason to treat guarantees of physical durability any different than guarantees of what could be referred to as legal durability.¹⁸⁶

- 10.8. Also with regard to premature delivery of encumbered goods, the seller should not be placed in a worse position than in case of early delivery of non-conforming goods. Article 37 allows the seller to remedy any lack of conformity up to the date of delivery. This provision applies to encumbrances as a general principle in terms of Article 7(2) or by way of analogy.¹⁸⁷ Article 37 is an expression of the general principle in terms of Article 7(2) underlying the CISG as a whole that contractual relationships should be maintained as long as possible.¹⁸⁸ The rationale of this principle of *favor contractus* leaves no room to distinguish between different causes that might result in unwinding the contract.

11. The buyer's knowledge of the encumbrance under Article 42(2)(a) CISG should be assessed according to the same legal standard as the knowledge requirement for the seller under Article 42(1) CISG. The same factors as in rule 6 should be considered taking into account any factual differences in the individual circumstances of the buyer and the seller.

- 11.1. For the seller's liability to be excluded by virtue of Article 42(2) lit. a, the buyer must be aware of the existence of the right or claim; a legal evaluation whether the goods actually infringe the (alleged) right is not required. Conversely, a false legal evaluation cannot protect the buyer from the exclusion of the seller's liability. Accordingly, a buyer who knows of the relevant IP right but (falsely) assumes that a valid license was granted knows of the encumbrance. This can be of particular relevance for sales of digital content, since in these cases, the buyer will usually be aware that IP rights exist with regard to the digital content sold and rely on an actual or assumed license. The relevant time to assess the buyer's knowledge is the time of contract conclusion. Any information which the buyer receives after contract conclusion is irrelevant for the exclusion of the seller's liability pursuant to

¹⁸⁴ Cf. SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 16 for the comparable scenario in relation to Article 41: Under a contract involving the carriage of goods, the seller is obliged to bear the transport costs but fails to do so resulting in the goods being encumbered with a lien or other security right of the carrier.

¹⁸⁵ BGH 31 October 2001, CISG-online 617; STAUDINGER/MAGNUS, Art. 30 para. 16; MüKo BGB-GRUBER, Art. 30 CISG para. 8; BRUNNER/DIMSEY, Art. 30 para. 21.

¹⁸⁶ By way of example, the seller of a machine that utilises a patented process might guarantee that the buyer will be entitled to make use of this machine for a certain period of time based on a license agreement between the seller and the right holder. If the license agreement is terminated before the time guaranteed by the seller has lapsed, it appears as appropriate to hold the seller to its word like in case of non-conforming goods.

¹⁸⁷ HONNOLD/FLECHTNER/HONNOLD, Art. 37 para. 245.1; MüKo BGB-GRUBER, Art. 37 CISG para. 10; BeckOK-SAENGER, Art. 37 para. 3. Cf. also KRÖLL ET AL./KRÖLL, Art. 37 para. 9. Cf. also for the same result PILTZ, para. 5–126; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 37 para. 6; STAUDINGER/MAGNUS, Art. 37 para. 13.

¹⁸⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 37 para. 5; MüKo BGB-GRUBER, Art. 37 CISG para. 1; STAUDINGER/MAGNUS, Art. 37 para. 3; KRÖLL ET AL./KRÖLL, Art. 37 para. 4.

Article 42(2) lit. a,¹⁸⁹ but can result in a duty to inform the seller based on the parties' general duty to cooperate.¹⁹⁰

- 11.2. A significant number of authors are of the view that in determining whether the buyer could not have been unaware of the IP right or claim, it must be considered that the buyer cannot be expected to investigate for IP rights in the relevant States.¹⁹¹ What appears to be the majority of authors also expressly reject what they usually call a duty to investigate¹⁹² for the buyer but nevertheless submit that the buyer cannot be unaware of IP rights which are characterised as “obvious”,¹⁹³ “widely known”,¹⁹⁴ “internationally known”,¹⁹⁵ “notorious”¹⁹⁶ or which “cannot be overlooked”.¹⁹⁷ A third view also rejects a general expectation to investigate on the part of the buyer but takes into account subjective qualities of the buyer and expects a professional buyer to be aware of well-known trademarks¹⁹⁸ or even all IP rights in its industry.¹⁹⁹ The fourth and final view is that in certain circumstances, the buyer is expected to investigate for IP rights in the relevant State as well.²⁰⁰
- 11.3. The last view is preferable. Already when analysing the above approaches, it becomes apparent that, apart from the first approach, all approaches recognise that the buyer is expected to know certain IP rights it does not actually know of. Although all approaches but the final approach expressly reject a so-called “duty to investigate” on the part of the buyer, they do not offer any explanation how the buyer is expected to gain knowledge of these certain IP rights. It is submitted that the only possible way the buyer can *ex ante* be expected to gain knowledge of IP rights unknown to it is by way of investigation. An interpretation of Article 42(2) lit. a confirms that in determining whether the buyer cannot have been unaware of the IP right or claim, the buyer can be expected to investigate for IP rights.
- 11.4. As a starting point, it is noteworthy that the language used to describe the knowledge of the seller in Article 42(1) and of the buyer, in Article 42(2) lit. a are identical; this strongly indicates that the threshold of knowledge is also the same for the seller and the buyer.²⁰¹

¹⁸⁹ KRÖLL ET AL./KRÖLL, Art. 42 para. 40; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 21.

¹⁹⁰ ACHILLES, FS Schwenzer, 1, 12; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 21.

¹⁹¹ HERBER/CZERWENKA, Art. 42 para. 6 (“generally not”); WITZ/SALGER/LORENZ/SALGER, Art. 42 para. 8; ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 42, 182; ENDERLEIN/MASKOW/STROHBACH, Art. 42 para. 9; PILTZ, para. 5–134; JANAL, FS Kritzer, 203, 219 (who, however, does not expect the seller to actively investigate, as well); likewise PRAGER, 174; SOERGEL/LÜDERITZ/SCHÜSSLER-LANGEHEINE, Art. 42 para. 6.

¹⁹² See *supra* para. 6.11 for the terminological issues in this regard.

¹⁹³ ACHILLES, Art. 42 para. 11; cf. also RAUDA/ETIER, VJ 2000, 30, 56.

¹⁹⁴ RAUDA/ETIER, VJ 2000, 30, 56; Supreme Court of Israel 22 August 1993, CISG-online 1082 (buyer must be aware that boots with the widely known trademark Levis infringe intellectual property rights in the State of use).

¹⁹⁵ KRÖLL ET AL./KRÖLL, Art. 42 para. 39; FERRARI ET AL./FERRARI, Art. 42 CISG para. 17; ZHANG, 91-92.

¹⁹⁶ FERRARI ET AL./FERRARI, Art. 42 CISG para. 17; jurisPK BGB-BAETGE, Art. 42 CISG para. 17 (who nevertheless considers it “sensible” to contractually shift the duty to investigate to the buyer, para. 22).

¹⁹⁷ MüKo BGB-GRUBER, Art. 42 CISG para. 22; BeckOGK-HACHEM, Art. 42 para. 28; REHER, 173.

¹⁹⁸ HONSELL/MAGNUS, Art. 42 para. 16; similar STAUDINGER/MAGNUS, Art. 42 para. 26.

¹⁹⁹ Cour de Cassation 19 March 2002, CISG-online 662 (shoes with counterfeited shoelaces), confirming the lower court's decision CA Rouen 17 February 2000, Pace; CA Colmar 13 November 2002, CISG-online 792 (shirts with protected fabric); TGI Versailles 23 November 2004, CISG-online 953 (counterfeited furniture).

²⁰⁰ BACHER, FS Schwenzer, 115, 125-126; METZGER, *RabelsZ* 73 (2009), 842, 861-862; SHINN, 2 *Minn. J. Global Trade* (1993), 115, 125 et seq.; ZELLER, 15 *VJ* (2011), 289, 302; VANDUZER, 4 *Canadian International Lawyer* (2001), 187; LANGENECKER, 213; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 21. Cf. also SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 18 (rejecting an expectation to investigate „[a]s a rule“ but recognising such expectation in certain circumstances).

²⁰¹ PRAGER, 174-175; VANDUZER, 4 *Canadian International Lawyer* (2001), 187; ZELLER, 15 *VJ* (2011), 289, 302; SHINN, 2 *Minn. J. Global Trade* (1993), 115, 125. Cf. also JANAL, FS Kritzer, 203, 214, 220; SCHWERHA, 16 *Mich. J. Int'l L.* (1994–1995), 441, 476; STAUDINGER/MAGNUS, Art. 42 para. 26; SOERGEL/LÜDERITZ/SCHÜSSLER-LANGEHEINE,

Obviously, it is not reasonable to assume that by including the same language to establish the seller's liability and to exclude the seller's liability the drafters of the CISG intended the liability of the seller always to be excluded. Consequently, Article 42 only offers a reasonable solution for the goods' encumbrance with IP right if the knowledge requirement with regard to the seller and the knowledge requirement with regard to the buyer yield different results. Since these two standards are, however, identically worded, the solution to this conundrum is that the difference between the two standards is one of fact, not one of law.

- 11.5. The parallelism between Article 42 and Article 35(2) lit. b confirms this assessment. Under Article 35, it is increasingly held that to properly balance the parties' interests with regard to the goods' non-compliance with public law standards in the relevant State, the buyer can in certain circumstances be expected to investigate for such standards in the relevant State.²⁰² It is not conceivable why the buyer should be expected to investigate for public law standards but not for IP rights which in many cases are even more accessible than the former, especially when registered.
- 11.6. Further, in an unfortunately unpublished statement the International Chamber of Commerce expressly stated that the references to the notion of "could not have been unaware" in Article 42(1) and Article 42(2) lit. a have to be interpreted consistently.²⁰³ The document in which this statement was made was referred to multiple times during the deliberations, yet the position advocated by the International Chamber of Commerce remained unopposed.
- 11.7. Economic considerations support the finding that the buyer is expected to investigate for IP encumbrances as well. When it comes to assessing and avoiding legal risks associated with the goods' use in the State of the buyer or a State chosen by the buyer, one should assume that the buyer could avoid the costs associated with these risks cheaper than the seller.²⁰⁴ In many cases, the buyer will have far superior knowledge of the legal situation in the relevant States.²⁰⁵ Moreover, there undoubtedly are situations in which the buyer can more efficiently investigate for IP rights in the relevant State – for example, if the buyer is a global player who itself manufactures comparable goods and has significant experience in the relevant market whereas the seller is a small supplier who has not done business in the relevant market before.
- 11.8. These considerations are even reinforced by the fact that the buyer is required to investigate for such rights anyways under the relevant IP law since the buyer itself would be liable for the goods infringing any IP rights in the relevant State. If the buyer can be expected to do so for the benefit of the third-party holder of the IP right, it can even more so be expected to conduct an investigation when it comes to the contractual relationship with the seller.

Art. 42 para. 6; KREMER, 208 ("the same applies to the knowledge of the buyer"). But see WITZ/SALGER/LORENZ/SALGER, Art. 42 para. 8; RAUDA/ÉTIER, VJ 2000, 30, 56; ENDERLEIN/MASKOW/STROHBACH, Art. 42 para. 9 (the general responsibility of the seller for the goods' freedom from encumbrance leads to a different duty despite the identical wording); similar HERBER/CZERWENKA, Art. 42 para. 2 (invoking that the seller is "usually more familiar with the technical and legal circumstances"); REHER, 173 (different interpretations despite identical wording).

²⁰² SAIDOV, 58 Vill. L. Rev. (2014), 529, 544 ("Making the buyer bear the burden of investigating avoids higher costs, which would otherwise have to be incurred if this burden were borne by the seller"); CISG Advisory Council Opinion No. 19, Standards and Conformity of the Goods under Article 35 CISG, Rapporteur SAIDOV, para. 4.14.

²⁰³ A/CONF.97/8/Add. 2, 20 as cited by PRAGER, 175 note 182 (unpublished, PRAGER, 164 note 154).

²⁰⁴ METZGER, *RabelsZ* 73 (2009), 842, 861-862; SMYTHE, 36 Nw. J. Int'l L. & Bus. (2016), 509, 535. Cf. for the parallel line of argument with regard to Article 35(2) lit. b CISG Advisory Council Opinion No. 19, Standards and Conformity of the Goods under Article 35 CISG, Rapporteur SAIDOV, para. 4.15.

²⁰⁵ SMYTHE, 36 Nw. J. Int'l L. & Bus. (2016), 509, 535.

- 11.9. This analysis is not changed²⁰⁶ by the fact that there is a broad consensus that under Article 35(3), the parallel provision dealing with exclusion of the seller's liability due to knowledge of the buyer in case of non-conformities, the buyer is not required to examine the goods before the contract conclusion.²⁰⁷ In fact, there are fundamental differences between the interests of the parties under these two provisions. While non-conformities generally comprise all factual and legal circumstances concerning the relationship of the goods to their surroundings,²⁰⁸ the view that Article 35(3) does not require an examination from the buyer appears to be limited to the goods themselves. In contrast, the question whether the buyer, for example, can be expected to investigate the goods' compliance with public law standards in the buyers country before contract conclusion does not seem to have been the subject of in-depth analyses so far in the framework of Article 35(3). The distinction between physical and non-physical features is, however, essential when comparing Article 35(3) with Article 42(2) lit. a.²⁰⁹ While any physical non-conformities result from the seller's sphere, IP encumbrances relevant in the State the buyer intends to use the goods in or in the buyer's own State are more closely associated with the buyer's sphere. Moreover, physical examination of the goods by the buyer before contract conclusion causes high costs and effort for both parties mainly in the context of an international sales contract where the buyer and the goods usually are not even located in the same State before delivery. In contrast, the buyer investigating for IP rights in States it conducts business in is significantly more feasible and does not require possession of the goods.
- 11.10. What the buyer cannot be unaware of is determined primarily by the information available to it at the time of contract conclusion.²¹⁰ The criteria of accessibility of information, information proximity and the resulting economic considerations, as well as the relevant factors determining these criteria, apply to the buyer just as they apply to the seller. In some cases, this information will be insufficient to conduct an effective investigation for IP rights, and the buyer thus is not obliged to conduct a comprehensive investigation.²¹¹ A medium-sized buyer with no particular knowledge of the goods or the market will most likely be expected to investigate for well-known and other obvious non-technical registered rights only. If the buyer, however, has equal²¹² or superior information,²¹³ for example, because itself manufactures comparable goods,²¹⁴ the buyer plans to use universally usable goods in a specific way that infringes an IP right²¹⁵ or the IP rights in question are internationally known²¹⁶, the buyer might be expected to investigate for registered technical rights as well. Additionally, if the buyer has specific knowledge of the relevant market – which is not unlikely if the buyer regularly operates in it – the buyer can even be in a better position than

²⁰⁶ In favour of a parallel interpretation of Articles 35(3) and 42(2) lit. a PILTZ, para. 5-133; SCHLECHTRIEM/SCHROETER, para. 445.

²⁰⁷ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 35 para. 38 with references.

²⁰⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 35 para. 9.

²⁰⁹ Cf. also LANGENECKER, 189-190 regarding ULIS.

²¹⁰ METZGER, *RabelsZ* 73 (2009), 842, 862; SHINN, 2 *Minn. J. Global Trade* (1993), 115, 125 et seq.

²¹¹ KRÖLL ET AL./KRÖLL, Art. 42 para. 38; PILTZ, para. 5-134.

²¹² Likewise with economic arguments METZGER, *RabelsZ* 73 (2009), 842, 862; but see LANGENECKER, 205 (only if the buyer has "significantly" better access to information than the seller); probably also RAUDA/ETIER, *VJ* 2000, 30, 57 ("seller is not responsible if the buyer has made a bigger mistake than themselves").

²¹³ Cf. CISG Advisory Council Opinion No. 19, Standards and Conformity of the Goods under Article 35 CISG, Rapporteur SAIDOV, para. 4.11.

²¹⁴ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 18; BACHER, *FS Schwenger*, 115, 126.

²¹⁵ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 18; BACHER, *FS Schwenger*, 115, 120, 126.

²¹⁶ BeckOK-SAENGER, Art. 42 para. 13; KRÖLL ET AL./KRÖLL, Art. 42 para. 39; FERRARI ET AL./FERRARI, Art. 42 CISG para. 17; LANGENECKER, 212.

the seller to investigate for IP rights overall.²¹⁷ In this regard, the buyer can be required to inquire with its customers situated in the relevant States of use as to the legal situation in their respective States.²¹⁸

11.11. If the buyer knows or could not have been unaware of the encumbrance in terms of Article 42(2) lit. a, the seller's liability is excluded. The provision thus employs an all-or-nothing approach.²¹⁹

12. The seller is not liable according to Article 42(2)(b) CISG for an encumbrance if it is the inevitable result of the contract requiring the goods to comply with the specifications furnished by the buyer. However, the seller cannot rely on Article 42(2)(b) CISG if the seller in addition to having knowledge of the IP right or claim pursuant to Article 42(1) CISG knew or could not have been unaware that the buyer's specifications would result in an encumbrance of the goods and did not inform the buyer about this.

12.1. Pursuant to Article 42(2) lit. b the seller's liability is excluded if the encumbrance with an IP right results from the fact that the seller manufactured or bought the goods in accordance with specifications made by the buyer.²²⁰ Article 42(2) lit. b is based on the consideration that where the buyer causes the goods to fall within the ambit of an IP right by furnishing specifications the seller complied with, the seller is not liable for the resulting encumbrance.²²¹

12.2. Specifications in the sense of Article 42(2) lit. b encompass "technical drawings, designs, formulae or other such specifications". The catch-all element, in the end, evinces that the list is not exhaustive.²²² The term "such" indicates that other specifications must be comparable to the expressly listed examples.²²³ This does not require that the specifications

²¹⁷ SMYTHE, 36 Nw. J. Int'l L. & Bus. (2016), 509, 535.

²¹⁸ Cf. Supreme Court of Israel 22 August 1993, CISG-online 1082 ("the appellant cannot claim that its customers did not need to inform it about a registered trade mark").

²¹⁹ LANGENECKER, 196-197. But see Supreme Court of Israel 22 August 1993, CISG-online 1082 (finding that "[w]here two parties cause damage, it is neither fair nor moral for one party to be liable for the full damage of the other" and that thus "allocating the liability is the desired result"); against this Supreme Court of Israel 22 August 1993, CISG-online 1082, dissenting opinion Justice GOLDBERG; REICH, Pace.

²²⁰ Cf. PRAGER, 176. Cf. for the related question whether specifications of the buyer can be specifications in the sense of Article 3(1): pro CA Chambéry 25 May 1993, CISG-online 223; contra OLG Frankfurt am Main 17 September 1991, CISG-online 28; HGer Zürich, 10 February 1999, CISG-online 488; SCHLECHTRIEM/SCHWENZER/SCHWENZER/HACHEM, Art. 3 para. 8; KRÖLL ET AL./MISTELIS/RAYMOND, Art. 3 para. 14; MüKo BGB-HUBER, Art. 3 CISG para. 6; BeckOK-SAENGER, Art. 3 para. 3; SCHLECHTRIEM/SCHROETER, para. 66; CISG Advisory Council Opinion No. 4, Contracts for the Sale of Goods to Be Manufactured or Produced and Mixed Contracts (Article 3 CISG), Rapporteur PERALES VISCASILLAS, para. 2.13.

²²¹ MüKo HGB-BENICKE, Art. 42 CISG para. 24; FERRARI ET AL./FERRARI, Art. 42 CISG para. 19; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 20; KRÖLL ET AL./KRÖLL, Art. 42 para. 41; STAUDINGER/MAGNUS, Art. 42 para. 28; BRUNNER/GOTTLIEB/TEBEL, Art. 42 para. 22; cf. also BACHER, FS Schwenger, 115, 127. But see PRAGER, 178; LANGENECKER, 230; REHER, 176 (based on fault); RAUDA/ETIER, VJ 2000, 30, 58; ENDERLEIN/MASKOW/STROHBACH, Art. 42 para. 10; HERBER/CZERWENKA, Art. 42 para. 7 (based on superior knowledge of the buyer).

²²² LANGENECKER, 232.

²²³ This consideration is confirmed by a comparison with the authentic French version which refers to "*autres spécifications analogues*" (emph. add.) and the Spanish language version referring to "*otras especificaciones análogas*" (emph. add.) as well as the non-authentic Dutch translation referring to "*andere soortgelijke specificaties*" (emph. add.). Notably, the non-authentic German translation only refers to "*sonstigen Angaben*" and has rightly been described as "imprecise" in this regard: LANGENECKER, 232; cf. also FERRARI ET AL./FERRARI, Art. 42 CISG para. 20. PRAGER, 177 note 188 alleges that the term "*vergleichbar*" (comparable) was omitted by other German authors; thereby PRAGER seemingly overlooks that the term is missing in the official German translation.

are made by way of a corporeal medium.²²⁴ Rather, it is decisive that the specifications are intended to influence the way the goods are manufactured, designed or packaged.²²⁵

- 12.3. The provision further requires that the encumbrance “results from the seller’s compliance” with the specifications. The plain wording of the provision seems to indicate that every causal link suffices to trigger the exclusion of the seller’s liability. Accordingly, every specification the buyer furnishes the seller with would exclude the latter’s liability. Such interpretation would negate any possibility of the buyer to take influence the way the goods are manufactured, designed or packaged. The buyer having the ability to specify the features of the goods is, however, a crucial element of any sales contract.²²⁶ Hence, not every logical causal link suffices for the encumbrance to “result from the seller’s compliance” with the specifications.²²⁷
- 12.4. In light of the principle of autonomous interpretation, an appropriate evaluative limitation of causation must be guided by the parties’ interests in the specific situation governed by this provision. Against the background that Article 42(2) lit. b only applies in cases in which the seller knew or could not have been unaware of the encumbrance, the buyer’s interest in receiving goods free from such encumbrances in this situation generally outweighs the seller’s interest in limited liability. It follows that a high threshold for causation should be employed in order to protect this reasonable interest of the buyer. Causation in the sense of Article 42(2) lit. b should thus be limited to cases in which the encumbrance was the inevitable result of the contract requiring the goods to comply with the specifications furnished by the buyer.²²⁸
- 12.5. For the encumbrance to be such an inevitable consequence, two requirements must be met: First, the specifications must be sufficiently precise.²²⁹ The specifications must leave no leeway, making it possible for the seller to comply with the specifications without resulting in the goods being encumbered.²³⁰ In the case of (unfounded) claims, this test must be applied on the basis of the allegations of the third party. Second, the specifications must be binding for the seller.²³¹ The seller thus cannot rely on non-binding specifications of the buyer.²³² Whether specifications are binding for the seller must be determined in the individual case by way of interpretation applying Article 8; usages and practices pursuant to Article 9 can also result in binding specifications.²³³ Given that a buyer who furnishes binding specifications to the seller assumes the risk of encumbrances resulting from these

²²⁴ LANGENECKER, 232-233.

²²⁵ Cf. MüKo BGB-GRUBER, Art. 42 para. 23; STAUDINGER/MAGNUS, Art. 42 para. 29; ACHILLES, Art. 42 para. 12; REHER, 176.

²²⁶ Cf. LANGENECKER, 235.

²²⁷ LANGENECKER, 235.

²²⁸ WITZ/SALGER/LORENZ/SALGER, Art. 42 para. 9; LANGENECKER, 235; cf. also KRÖLL ET AL./KRÖLL, Art. 42 para. 42 (“actually caused”); REHER, 176 (“result specifically from compliance with the specifications”).

²²⁹ Supreme Court of Israel 22 August 1993, CISG-online 1082, sub 3(e); KRÖLL ET AL./KRÖLL, Art. 42 para. 42; ACHILLES, Art. 42 para. 12; BeckOK-SAENGER, Art. 42 para. 14; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 21; MüKo HGB-BENICKE, Art. 42 CISG para. 25; MüKo BGB-GRUBER, Art. 42 CISG para. 23; HERBER/CZERWENKA, Art. 42 para. 7; PILTZ, para. 5–135.

²³⁰ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 21; BeckOK-SAENGER, Art. 42 para. 14; KRÖLL ET AL./KRÖLL, Art. 42 para. 42; WITZ/SALGER/LORENZ/SALGER, Art. 42 para. 9; FERRARI ET AL./FERRARI, Art. 42 CISG para. 20; REHER, 176; JANAL, FS Kritzer, 203, 223; PILTZ, para. 5–135; cf. also MüKo HGB-BENICKE, Art. 42 CISG para. 25; GALSTON/SMIT/SCHLECHTRIEM, 6–34; similar BeckOGK-HACHEM, Art. 42 para. 29.

²³¹ Supreme Court of Israel 22 August 1993, CISG-online 1082, sub 3(e); LANGENECKER, 236-237; ACHILLES, Art. 42 para. 12; STAUDINGER/MAGNUS, Art. 42 para. 30; MüKo BGB-GRUBER, Art. 42 CISG para. 23; PILTZ, para. 5–135.

²³² BeckOGK-HACHEM, Art. 42 para. 29; cf. also MüKo HGB-BENICKE, Art. 42 CISG para. 24 (specifications in buyer’s sphere of risk).

²³³ LANGENECKER, 237.

specifications, it should not be assumed lightly that the buyer intends to do so. Lack of experience in dealing with goods of the kind in question on the part of the buyer makes it is less likely that the buyer intends to have the seller blindly comply with the former's specifications and more likely that compliance with the specifications is subject to their analysis for potential infringements by the more experienced seller.

- 12.6. Since Art. 42(2) lit. b is not based on fault of the buyer but merely on causation, the seller's liability is even excluded if the buyer's binding specifications unbeknownst to it caused an encumbrance. It is not necessary that the buyer is aware of the potential infringement.²³⁴ The buyer's awareness of the risk of infringement resulting from its specifications can, however, be relevant with regard to a potential duty of the seller to inform the buyer of this very risk.
- 12.7. If the seller realises that the buyer's specifications result in the risk of an infringement, the former must inform the latter accordingly due to the parties' general duty to cooperate.²³⁵ A failure of the seller to comply with this information duty prevents it from relying on the exclusion of its liability²³⁶ and can result in a claim for damages of the buyer.²³⁷ Notably, the threshold for the seller's knowledge in this regard is higher than for the seller's general knowledge of the encumbrance under Article 42(1). Whereas under Article 42(1), the seller must only be aware of the right or claim as such and is not required to conduct a legal evaluation, for the seller to be obliged to inform the buyer of a risk of infringement resulting from the latter's specifications, the seller must arrive or ought to have arrived at the (legal) conclusion that there is a significant risk that an IP right might be infringed.
- 12.8. Specifications of the buyer that make the goods fall in the scope of an IP right violate a respective contractual protective duty of the buyer.²³⁸ This breach of contract entitles the seller to demand specific performance pursuant to Article 62 in the form of non-infringing specifications and to set a corresponding additional period of time pursuant to Article 63.²³⁹ If the buyer does not comply with this request, it fundamentally breaches the contract in terms of Article 25 entitling the seller to avoid the contract pursuant to Article 64(1) lit. a.²⁴⁰ The buyer is liable for losses incurred by the seller due to its compliance with the specifications (for example due to being subject to claims of the IP right holder) based on Article 61(1) lit. b.²⁴¹ If the seller complies with the specifications, although it is aware that this might lead to an infringement, its claim for damages is reduced based on Article 77.²⁴²

²³⁴ STAUDINGER/MAGNUS, Art. 42 para. 31; MüKo BGB-GRUBER, Art. 42 CISG para. 23; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 21; KRÖLL ET AL./KRÖLL, Art. 42 para. 42; ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 42, 183; SOERGEL/LÜDERITZ/SCHÜSSLER-LANGEHEINE, Art. 42 para. 7.

²³⁵ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 22; STAUDINGER/MAGNUS, Art. 42 para. 31; RAUDA/ÉTIER, VJ 2000, 30, 59; MüKo BGB-GRUBER, Art. 42 para. 24; KRÖLL ET AL./KRÖLL, Art. 42 para. 43; SOERGEL/LÜDERITZ/SCHÜSSLER-LANGEHEINE, Art. 42 para. 7; ŠARČEVIĆ/VOLKEN/ENDERLEIN, Art. 42, 183; ACHILLES, Art. 42 para. 12; Secretariat Commentary, Art. 40 para. 10.

²³⁶ MüKo BGB-GRUBER, Art. 42 CISG para. 24; STAUDINGER/MAGNUS, Art. 42 para. 31; BeckOK-SAENGER, Art. 42 para. 14; RAUDA/ÉTIER, VJ 2000, 30, 59; PRAGER, 179; cf. also SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 22; FERRARI ET AL./FERRARI, Art. 42 CISG para. 21 regarding the case that the seller knows of the potential infringement already at the time of contract conclusion. But see REHER, 174-175; probably also PILTZ, para. 5-135.

²³⁷ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 22 regarding the case that the seller learns of the potential infringement of the intellectual property right after conclusion of the contract.

²³⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 24; KRÖLL ET AL./KRÖLL, Art. 42 para. 45; REHER, 177.

²³⁹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 24; REHER, 177.

²⁴⁰ KRÖLL ET AL./KRÖLL, Art. 42 para. 45; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 24; FERRARI ET AL./FERRARI, Art. 42 CISG para. 21; MüKo HGB-BENICKE, Art. 42 CISG para. 27.

²⁴¹ MüKo HGB-BENICKE, Art. 42 CISG para. 26; FERRARI ET AL./FERRARI, Art. 42 CISG para. 21; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 24.

²⁴² SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 24.

Article 80, however, does not apply since the seller did not cause the buyer's failure to perform in the form of giving specifications leading to infringement.

12.9. The seller's liability is excluded if the buyer fails to give proper notice of the encumbrance pursuant to Article 43(1) and none of the exceptions of Article 43(2) or Article 44 applies.

13. Where the seller is liable for an encumbrance of a third-party IP right or claim, the buyer has all the remedies listed in Article 45 CISG. Any provision which according to its wording is expressly limited to the delivery of non-conforming goods nevertheless applies to the delivery of goods encumbered with third-party IP rights or claims.

13.1. Encumbrances are encompassed by the CISG's uniform concept of breach of contract²⁴³ with Article 45(1) as the central provision for the buyer's remedies.²⁴⁴ In contrast to the general reference to the seller's failure „to perform any of his obligations under the contract or this Convention“ found in particular in Article 45, Articles 46(2), (3), 50, 51 and 82(2) lit. c refer to goods not conforming to the contract.

13.2. The former articles do not apply directly to encumbrances of the goods. As becomes clear from the title of Part III. Chapter II. Section II., the CISG establishes a dichotomy between “conformity of the goods” and “third party claims”.²⁴⁵ Moreover, the CISG contains another notion which has to be juxtaposed with the notion of “goods do not conform with the contract”: Article 45(1), the central provision of Part III. Chapter II. Section III. “Remedies for breach of contract by the seller”, grants the buyer access to specific remedies “[i]f the seller fails to perform any of his obligations under the contract or this Convention”. The title of this section referring to “breach of contract” as well as the synonymous²⁴⁶ wording of Article 45(1) referring to the seller's “fail[ure] to perform any of his obligations” thus contain broader categories the natural meaning of which encompasses goods which “do not conform with the contract” as well as goods which are encumbered with “third party claims”. In addition to the grammatical distinction this title makes, the provisions contained therein also can be divided into provisions dealing with conformity of the goods and provisions dealing with third-party rights or claims. Doing so reveals a certain parallelism between the two sets of provisions.²⁴⁷ The CISG thus stipulates two distinct sets of obligations for the seller when it comes to the characteristics of the goods.²⁴⁸

13.3. The CISG's legislative materials evince, however, that the conscious distinction between non-conformities and encumbrances was not meant to exclude the application of the provisions specifically dealing with non-conformities to encumbrances. Rather, the drafting history confirms that the drafters – while deliberately distinguishing between non-conformities and encumbrances – consciously refrained from comprehensively regulating those matters for encumbrances which are dealt with in the CISG's provisions which only

²⁴³ HONNOLD/FLECHTNER/HONNOLD, Art. 45 para. 276; MüKo BGB-HUBER, Art. 45 CISG para. 4; MüKo HGB-BENICKE, Art. 45 CISG para. 1; HONSELL/SCHNYDER/STRAUB, Art. 45 para. 10; PRAGER, 191.

²⁴⁴ Cf. only SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 27; KRÖLLET AL./KRÖLL, Art. 42 para. 49; HONSELL/SCHNYDER/STRAUB, Art. 45 para. 18.

²⁴⁵ KRÖLL ET AL./BACH, Art. 50 para. 13; SCHLECHTRIEM/SCHWENZER/MÜLLER-CHEN, Art. 42 para. 22; HIRNER, 193; KREMER, 76 note 70.

²⁴⁶ MüKo HGB-BENICKE, Art. 45 para. 1; HONSELL/SCHNYDER/STRAUB, Art. 45 para. 14; PRAGER, 191.

²⁴⁷ HIRNER, 194 (Article 35 corresponding to Articles 41, 42; Article 39 to 43(1); Article 40 to 43(2) and Article 44 being applicable to both categories of defects).

²⁴⁸ HONSELL/SCHNYDER/STRAUB, Art. 45 para. 54.

refer to goods not conforming to the contract.²⁴⁹ This *lacuna* allows applying the provisions specifically dealing with non-conformities as general principles in terms of Article 7(2) to encumbrances.

- 13.4. Against this background, the buyer has the same remedies as it has with regard to non-confirming goods: In the first place, the buyer can claim specific performance according to Article 46(1), with the restriction of Article 28. Specific performance can be rendered by delivery of unencumbered substitute goods,²⁵⁰ removal of the third-party right,²⁵¹ a binding and effective declaration of the third party not to invoke its right or claim²⁵² or the final and binding rejection of the third-party claim in court proceedings initiated by the seller.²⁵³ It does not suffice that the seller merely declares that it will indemnify the buyer.²⁵⁴ The seller can freely choose which of these forms of performance it wants to employ.²⁵⁵ Thus, the buyer cannot require the seller to defend it against the third-party claims.²⁵⁶ Legal costs incurred by the buyer in this regard, however, must be compensated.
- 13.5. According to their unequivocal wording, Article 46(2) and (3) merely apply to non-conforming but cannot be directly applied to encumbered goods.²⁵⁷ Against the background of the identified gap regarding the legal consequences in case of encumbered goods, the restrictions of Article 46(2) and (3) apply as a general principle in terms of Article 7(2) or by way of analogy.²⁵⁸ Article 46(2) limits the buyer's right to delivery of substitute goods to cases of fundamental breach, without the restrictions of Article 28.²⁵⁹ The underlying rationale is that delivery of substitute goods effectively is comparable to avoidance of the contract, which in turn generally requires fundamental breach. This rationale applies equally

²⁴⁹ Cf. HIRNER, 191; LANGENECKER, 266. Cf. O.R., 326 (Norwegian delegate: “there was a gap as regards remedies for third-party claims in the existing text of sections II and III of chapter II”); O.R., 327 (Swedish delegate: “too late at the present stage to fill the gaps in the draft Convention with regard to the remedies available to the seller and the buyer. [...] The problem was too complex to be settled as easily as that, and he would prefer to keep the existing text, in spite of its shortcomings”); O.R., 361 (delegate from former German Democratic Republic: “had not yet been decided how the consequences of third-party claims were to be treated under the Convention”).

²⁵⁰ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 21; BeckOK-SAENGER, Art. 41 para. 14; MüKo BGB-GRUBER, Art. 41 CISG para. 21. If third parties, however, continue to assert claims against the buyer regarding the originally delivered goods, the seller is liable for this encumbrance.

²⁵¹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 21; BeckOK-SAENGER, Art. 41 para. 14; BeckOGK-HACHEM, Art. 41 para. 23; KRÖLL ET AL./KRÖLL, Art. 41 para. 39; MüKo BGB-GRUBER, Art. 41 CISG para. 21.

²⁵² SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 24; ACHILLES, Art. 41 para. 7; BeckOK-SAENGER, Art. 41 para. 14; BeckOGK-HACHEM, Art. 41 para. 23; MüKo BGB-GRUBER, Art. 41 CISG para. 21; cf. also REHER, 217.

²⁵³ KRÖLL ET AL./KRÖLL, Art. 41 para. 39; BeckOGK-HACHEM, Art. 41 para. 23.

²⁵⁴ But see ACHILLES, Art. 41 para. 7.

²⁵⁵ METZGER, *RabelsZ* 73 (2009), 842, 848.

²⁵⁶ Unclear in this regard: BIANCA/BONELL/DATE-BAH, Art. 41 para. 2; MüKo BGB-GRUBER, Art. 41 CISG para. 6; STAUDINGER/MAGNUS, Art. 41 para. 17; KRÖLL ET AL./KRÖLL, Art. 41 para. 20; KAROLLUS, 123; GALSTON/SMIT/SCHLECHTRIEM, 6–31.

²⁵⁷ Cf. only BeckOK-SAENGER, Art. 41 para. 14; BUCHER/SCHLECHTRIEM, S. 133; MOHS, *IHR* 2002, 59, 60; Secretariat Commentary, Art. 39 para. 8; BRUNNER/GOTTLIEB/TEBEL, Art. 41 para. 26, Art. 42 para. 26. Also cf. KREMER, 76 regarding the CISG's distinction between non-conformity and third-party rights and claims. But see HERBER/CZERWENKA, Art. 41 para. 10.

²⁵⁸ MOHS, *IHR* 2002, 59, 62 et seq.; BeckOGK-HACHEM, Art. 42 para. 30; REHER, 216-217; KRÖLL ET AL./KRÖLL, Art. 42 para. 51; JANAL, *FS Kritzer*, 203, 227, 229; cf. also CISG Advisory Council Opinion No. 21, *Delivery of Substitute Goods and Repair under the CISG*, Rapporteurs SCHWENZER/BEIMEL, rule I.2., para. 3.9 (leaving decision between direct and analogous application open). But see BeckOK-SAENGER, Art. 42 para. 15; MüKo BGB-GRUBER, Art. 42 CISG para. 27; FERRARI ET AL./FERRARI, Art. 42 CISG para. 10; STAUDINGER/MAGNUS, Art. 42 para. 32; PRAGER, 203 et seq.; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 28 (with reservations but ultimately “in any case”). Cf. also Different MOHS, *IHR* 2002, 59, 62 et seq. (relying on a closer relation of the seller's liability for intellectual property encumbrances with the liability for non-conformities is thus superfluous).

²⁵⁹ CISG Advisory Council Opinion No. 21, *Delivery of Substitute Goods and Repair under the CISG*, Rapporteurs SCHWENZER/BEIMEL, I.2., para. 3.5.

with regard to encumbered goods.²⁶⁰ Specifically, with regard to IP encumbrances, it is very well conceivable that the parties contemplated multiple States of use and the encumbrance exists in only one of these States allowing the buyer to sell or use the goods originally intended for this State in one of the other envisaged States of use. There is no reason why a buyer who received encumbered goods should be in a better position than a buyer who received non-conforming goods.²⁶¹ In both cases, the seller has a reasonable interest in avoiding unnecessary shipping costs associated with restituting the goods if the buyer's loss can equally well be compensated by an award of damages.

- 13.6. Article 46(3) concerns the repair of the goods and protects the seller from unreasonable requests for repair. While the term repair appears to indicate physical interaction with the goods, it should be understood in a broader fashion and include all forms of remedying a defect without restituting the goods.²⁶² Consequently, repair of goods encumbered with IP rights or claims is possible, for example by removing the encumbrance. The provision aims to protect the seller from having to repair goods in particular where the repair costs would be disproportionately higher than the costs of acquiring substitute goods.²⁶³ This scenario can arise with regard to IP encumbrances (and general encumbrances) as well. For example, the third party might be willing to grant a license at a prohibitively high price whereas the goods can without issue be delivered or acquired in a non-infringing way which would still conform with the contract.²⁶⁴ Such cases might include the delivery of generic goods of a certain trademarked colour which can easily be replaced by goods of a different colour. Again, there is no reason why the buyer of encumbered goods should be better off than the buyer of non-conforming goods.
- 13.7. The buyer can furthermore avoid the contract based on Article 49(1) lit. a if the breach of contract is fundamental in terms of Article 25. A breach of contract, in particular, is fundamental if the third party has taken possession of the goods,²⁶⁵ is in the position to do so anytime²⁶⁶ or the buyer is prevented from or heavily restricted in using the goods due to other reasons based on the encumbrance.²⁶⁷ On the other hand, a breach of contract is not fundamental if the buyer has a reasonable possibility to remove the encumbrance.²⁶⁸ It is, for example, reasonable for the buyer to remove the encumbrance if it is possible to set-off the sum required for this removal against the purchase price²⁶⁹ or the seller otherwise provides sufficient security.²⁷⁰

²⁶⁰ CISG Advisory Council Opinion No. 21, Delivery of Substitute Goods and Repair under the CISG, Rapporteurs SCHWENZER/BEIMEL, I.2., para. 3.6.

²⁶¹ CISG Advisory Council Opinion No. 21, Delivery of Substitute Goods and Repair under the CISG, Rapporteurs SCHWENZER/BEIMEL, I.2., para. 3.9.

²⁶² Cf. SCHLECHTRIEM/SCHWENZER/MÜLLER-CHEN, Art. 46 para. 44.

²⁶³ SCHLECHTRIEM/SCHWENZER/MÜLLER-CHEN, Art. 46 para. 40.

²⁶⁴ CISG Advisory Council Opinion No. 21, Delivery of Substitute Goods and Repair under the CISG, Rapporteurs SCHWENZER/BEIMEL, I.2., para. 3.8, note 51.

²⁶⁵ STAUDINGER/MAGNUS, Art. 41 para. 24; HONSELL/MAGNUS, Art. 41 para. 20; MüKo BGB-GRUBER, Art. 41 para. 24.

²⁶⁶ MüKo BGB-GRUBER, Art. 41 CISG para. 24; BeckOK-SAENGER, Art. 41 para. 13; BeckOGK-HACHEM, Art. 41 para. 23; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 24; STAUDINGER/MAGNUS, Art. 41 para. 24; ACHILLES, Art. 41 para. 7; FERRARI ET AL./FERRARI, Art. 41 CISG para. 12; ZHANG, 17, 170.

²⁶⁷ Cf. MüKo BGB-GRUBER, Art. 41 CISG para. 24; BeckOK-SAENGER, Art. 41 para. 13; STAUDINGER/MAGNUS, Art. 41 para. 24; ZHANG, 17.

²⁶⁸ Cf. SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 24; STAUDINGER/MAGNUS, Art. 41 para. 24; BeckOK-SAENGER, Art. 41 para. 13; BeckOGK-HACHEM, Art. 41 para. 23; FERRARI ET AL./FERRARI, Art. 41 CISG para. 12; ZHANG, 17; but cf. MüKo BGB-GRUBER, Art. 41 CISG para. 24 (buyer's possibility to remove encumbrance does "usually not" hinder fundamental breach).

²⁶⁹ Cf. MüKo BGB-GRUBER, Art. 41 CISG para. 24; KRÖLL ET AL./KRÖLL, Art. 41 para. 43.

²⁷⁰ Cf. KRÖLL ET AL./KRÖLL, Art. 41 para. 43.

- 13.8. Because the resale of encumbered goods itself usually constitutes an infringement of the relevant IP right, the seller's breach of contract will, in most cases, be fundamental.²⁷¹ It should be added that the buyer generally cannot be expected to sell the goods in a market where no protection is claimed for the IP right instead of the initially intended market²⁷² and that, accordingly, the possibility to do so does not render the breach non-fundamental in terms of Article 25.
- 13.9. In cases of obviously unfounded or frivolous claims, the breach of contract will usually not be fundamental in terms of Article 25 since both the buyer and the seller will be readily able to fend off the claims.²⁷³ By way of exception, however, the breach can be fundamental if time was of the essence for the buyer, and the seller was aware of this.²⁷⁴
- 13.10. Under Article 82(1), the buyer loses its right to avoid the contract if it cannot reconstitute the goods. An exception is made from this rule under Article 82(2) lit. c if the buyer sells on the goods before it discovered or ought to have discovered the relevant lack of conformity. Since Article 82(2) lit. c expressly refers to non-conforming goods it does not apply directly to encumbered goods.²⁷⁵ Yet again, the provision applies as a general principle in terms of Article 7(2) or by way of analogy.²⁷⁶ By allowing the buyer to avoid the contract despite being unable to reconstitute the goods because it used them in the normal course of business, Article 82(2) lit. c, in essence, protects the buyer's interest in using the goods in the normal course of business without having to worry about potentially having to reconstitute the goods in the future. With regard to encumbrances, the buyer is under no duty to examine the goods, as it is regarding non-conforming goods under Article 38. The buyer of encumbered goods thus should have to worry even less about any defects once it has concluded the contract. It follows that when balancing the parties' interests in the situation encompassed by Article 82(2) lit. c, this balance tips even more in favour of the buyer of encumbered goods compared to the buyer of non-conforming goods.
- 13.11. Article 50 allows the buyer to reduce the purchase price and only applies "[i]f the goods do not conform with the contract". Specifically in case of unforeseeable losses or losses that are not recoverable due to an exemption based on Article 79,²⁷⁷ however, applying Article 50 as a general principle in terms of Article 7(2) or by way of analogy to encumbrances must be considered.²⁷⁸ Generally, a buyer receiving encumbered goods is as interested in a reduction of the purchase price as a buyer receiving non-conforming goods. Mere difficulties in computing the reduction of the purchase price in certain situations do not hinder application in situations where the reduction can be computed.²⁷⁹

²⁷¹ JANAL, FS Kritzer, 203, 229.

²⁷² KRÖLL ET AL./KRÖLL, Art. 42 para. 52; JANAL, FS Kritzer, 203, 229.

²⁷³ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 11.

²⁷⁴ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 11; SCHWENZER/TEBEL, Jusletter 12 September 2012, 1, 4, para. 11.

²⁷⁵ BRUNNER/GOTTLIEB/TEBEL, Art. 41 para. 27, Art. 42 para. 26; MOHS, IHR 2006, 59, 62-63.

²⁷⁶ MOHS, IHR 2002, 59, 62 et seq.; REHER, 241; JANAL, FS Kritzer, 203, 229; but see KREMER, 78.

²⁷⁷ Cf. ZHANG, 176. Regarding Art. 79 SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 24. Too far-reaching ACHILLES, Art. 41 para. 7 (question "is superfluous").

²⁷⁸ STAUDINGER/MAGNUS, Art. 41 para. 26; HONSELL/MAGNUS, Art. 41 para. 20; ENDERLEIN/MASKOW/STROHBACH, Art. 41 para. 15 et seq.; HERBER/CZERWENKA, Art. 41 para. 10; jurisPK BGB-BAETGE, Art. 44 CISG para. 14; ZHANG, 175; detailed REHER, 198-203. Left open by SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 24. But see BeckOK-SAENGER, Art. 41 para. 14; BUCHER/SCHLECHTRIEM, 132; Secretariat Commentary, Art. 39 para. 8; HIRNER, 213-214.

²⁷⁹ Cf. for this concern O.R., 360 (Swedish delegate: "did not think it was appropriate to apply the remedy of price reduction to cases under article 39; that article applied not only to justified claims, but also to claims which might not be justified, and which therefore could not be exactly defined in monetary terms").

- 13.12. Curiously, also Article 51 – stipulating that if only part of the goods delivered by the seller is defective, the buyer can exercise its remedies only in respect of the defective part – only refers to non-conforming goods. With regard to partially defective deliveries, however, there is no reason to distinguish between non-conformities and encumbrances – Article 51 applies as a general principle in terms of Article 7(2) or by way of analogy to encumbrances.
- 13.13. With regard to damages, a buyer receiving encumbered goods can demand full compensation of its losses based on Article 74.²⁸⁰ Recoverable costs include the costs of an appropriate legal defence against the third party, particularly if the buyer cannot claim its legal costs based on the applicable procedural law²⁸¹ or if this claim cannot be enforced. Furthermore, the costs for removing the encumbrance are recoverable²⁸² as well as lost profits due to loss of use.²⁸³ In case of a cover purchase, the damages can be calculated based on Articles 75 and 76. The seller can generally invoke exclusion of its liability pursuant to Article 79.²⁸⁴ Yet, cases in which the seller is exempt from liability for encumbrances will be rare.²⁸⁵ Mere ignorance of the seller regarding the third-party rights or claims is in any event insufficient.²⁸⁶
- 13.14. Losses, such as legal costs, resulting from obviously unfounded claims are usually foreseeable in the sense of Article 74 since this requirement is not aimed at the breach of contract but merely the resulting losses. Depending on the circumstances of the individual case, the seller can be exempt from liability under Article 79.²⁸⁷ If the buyer colludes with the third party, however, all its remedies are excluded by virtue of Article 80.²⁸⁸
- 13.15. Depending on the circumstances of the individual case, the buyer can be obligated to fend off the third-party claims itself. This is particularly the case if limitation periods are about to expire.²⁸⁹ This obligation is based on the buyer's duty to preserve the goods under Article 86²⁹⁰ and on the parties' general duty to cooperate flowing from Article 7.²⁹¹ Furthermore, simply sitting idle can constitute a violation of the buyer's duty to mitigate its loss under Article 77.²⁹² Whether the buyer can be expected under its duty to mitigate to license infringing goods from the holder of the IP right will depend on the individual

²⁸⁰ Notably, it is not the breach of contract that must be foreseeable, but rather the resulting loss in knowledge of the breach of contract which appears to have been overlooked by MüKo HGB-Benicke, Art. 41 CISG para. 12.

²⁸¹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 24; BeckOK-SAENGER, Art. 41 para. 14; MüKo BGB-GRUBER, Art. 41 CISG para. 22; cf. also WITZ/SALGER/LORENZ/SALGER, Art. 41 para. 7.

²⁸² MüKo BGB-GRUBER, Art. 41 CISG para. 22; STAUDINGER/MAGNUS, Art. 41 para. 25.

²⁸³ BeckOK-SAENGER, Art. 41 para. 14; METZGER, *RabelsZ* 73 (2009), 842, 849.

²⁸⁴ KRÖLL ET AL./KRÖLL, Art. 41 para. 41; FERRARI ET AL./FERRARI, Art. 41 CISG para. 12; BUCHER/SCHLECHTRIEM, 133; but see MüKo HGB-BENICKE, Art. 41 CISG para. 11-12 (disregarding the CISG's general system of liability in favour of strict liability). Cf. also HONSELL/MAGNUS, Art. 41 para. 16 (in favour of strict liability but nevertheless considering Art. 79 to be applicable).

²⁸⁵ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 79 para. 29.

²⁸⁶ KRÖLL ET AL./KRÖLL, Art. 41 para. 41.

²⁸⁷ KRÖLL ET AL./KRÖLL, Art. 41 para. 41; SCHWENZER/TEBEL, *Jusletter* 12 September 2012, 1, 4, para. 11.

²⁸⁸ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 41 para. 11; SCHWENZER/TEBEL, *Jusletter* 12 September 2012, 1, 4, para. 11; cf. also MüKo BGB-GRUBER, Art. 41 CISG para. 8 (Art. 41 "not applicable").

²⁸⁹ KRÖLL ET AL./KRÖLL, Art. 41 para. 20.

²⁹⁰ STAUDINGER/MAGNUS, Art. 41 para. 18; HONSELL/MAGNUS, Art. 41 para. 10; MüKo BGB-GRUBER, Art. 41 para. 9; KRÖLL ET AL./KRÖLL, Art. 41 para. 20.

²⁹¹ MüKo BGB-GRUBER, Art. 41 CISG para. 9; STAUDINGER/MAGNUS, Art. 41 para. 18; HONSELL/MAGNUS, Art. 41 para. 10; FERRARI ET AL./FERRARI, Art. 41 CISG para. 5.

²⁹² Cf. KRÖLL ET AL./KRÖLL, Art. 41 para. 42.

circumstances of the case.²⁹³ Costs the buyer incurred in fending off the third-party claims are recoverable from the seller as damages.²⁹⁴

13.16. Further, the buyer can invoke the encumbrance as a defence against the seller's claim for payment of the purchase price pursuant to Article 58.²⁹⁵

13.17. If the buyer has a reasonable excuse for failing to notify the seller of encumbrances under Article 44, it retains the right to reduce the purchase price and claim damages as if it had complied with the duty to give notice, except for loss of profit.²⁹⁶ If the factual basis for the reasonable excuse is only temporary, the buyer has to give proper notice within a reasonable period of time after this basis ceases to exist.²⁹⁷

13.18. Limitation periods are not governed by the CISG but by domestic law. The two-year cut-off period stipulated in Article 39(2) does apply neither directly nor by way of analogy.²⁹⁸

14. After the buyer has taken over the goods, the buyer bears the burden of proof regarding the requirements of the seller's liability under Article 42 CISG, including

- a. that the IP right or claim exists;**
- b. that the goods are encumbered by IP right or claim;**
- c. that the seller knew or could not have been unaware of the encumbrance; and**
- d. that the State of use was contemplated by the parties.**

After the buyer has taken over the goods, the buyer bears the burden to prove the existence of the right or claim,²⁹⁹ that the third party at least claims that the goods fall within the scope of the IP right,³⁰⁰ the seller's knowledge in this regard³⁰¹ and that the State of use was contemplated at the time of contract conclusion.³⁰² If the buyer lacks expert knowledge, the burden to prove that the goods are encompassed by the IP right can shift to the seller.³⁰³

15. The seller bears the burden of proof regarding the requirements of the defences pursuant to Article 42 CISG, including

- a. in a case where the buyer relies on an encumbrance in the State in which it has its place of business, that only a different State of use was contemplated at the time of the conclusion of the contract;**
- b. in a case where the buyer invokes an infringement of a right, that there is no infringement, for example due to existing licenses;**

²⁹³ Cf. for the comparable position with regard to Article 41 that the buyer cannot be expected to purchase stolen goods from the owner or its successor, OLG Dresden 21 March 2007, CISG-online 1626; KRÖLL ET AL./KRÖLL, Art. 41 para. 42.

²⁹⁴ HONSELL/MAGNUS, Art. 41 para. 10; FERRARI ET AL./FERRARI, Art. 41 CISG para. 5.

²⁹⁵ BeckOK-SAENGER, Art. 41 para. 14; MüKo BGB-GRUBER, Art. 41 CISG para. 23.

²⁹⁶ ACHILLES, Art. 44 para. 4; MAGNUS, IHR 1999, 29, 34.

²⁹⁷ MüKo BGB-GRUBER, Art. 44 CISG para. 12; STAUDINGER/MAGNUS, Art. 44 para. 15; HONSELL/MAGNUS, Art. 44 para. 8; HERBER/CZERWENKA, Art. 44 para. 3; FERRARI ET AL./FERRARI, Art. 44 CISG para. 10; BeckOK-SAENGER, Art. 44 para. 2.

²⁹⁸ STAUDINGER/MAGNUS, Art. 41 para. 28.

²⁹⁹ BGer 17 April 2012, 4A.591/2011, E. 2.3, CISG-online 2346; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 31; MÜLLER, 121.

³⁰⁰ BGer 17 April 2012, 4A.591/2011, E. 2.3, CISG-online 2346 (if the buyer has multiple suppliers it must prove that specifically the goods of the seller are encumbered with intellectual property rights); OGH 12 September 2006, CISG-online 1364; SCHWENZER/TEBEL, Jusletter 17 September 2012, 1, 5, para. 15.

³⁰¹ SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 31; BeckOGK-HACHEM, Art. 42 para. 31.

³⁰² KRÖLL ET AL./KRÖLL, Art. 42 para. 55; MüKo HGB-BENICKE, Art. 42 CISG para. 28; PRAGER, 158; MÜLLER, 122; not entirely clear in light of the hierarchy between Art. 42(1) lit. a and b BeckOGK-HACHEM, Art. 42 para. 31 (buyer has to prove that State of use was contemplated but seller has to prove that State of buyer is relevant).

³⁰³ OGH 12 September 2006, CISG-online 1364; SCHLECHTRIEM/SCHWENZER/SCHWENZER, Art. 42 para. 31.

- c. that the buyer knew or could not have been unaware of the IP right or claim; and**
- d. that the encumbrance was the inevitable result of the contract requiring the goods to comply with the specifications furnished by the buyer.**

The seller must prove that a State of use was contemplated at the time of contract conclusion if the buyer relies on an encumbrance in the State in which it has its place of business.³⁰⁴ If the buyer does not rely on any claim made but merely on the right of a third party, the seller must prove that there is no infringement, for example due to existing licenses.³⁰⁵ The same applies if the seller relies on the exclusion of its liability due to the buyer's knowledge of the IP right or claim or sufficiently detailed specifications made by the buyer.³⁰⁶

³⁰⁴ KRÖLL ET AL./KRÖLL, Art. 42 para. 55.

³⁰⁵ JANAL, FS Kritzer, 203, 211-212.

³⁰⁶ MüKo BGB-GRUBER, Art. 42 CISG para. 28; FERRARI ET AL./FERRARI, Art. 42 CISG para. 22.

ADDENDUM: CASES CITED**Austria**

Oberster Gerichtshof (Austrian Supreme Court), 12 September 2006, CISG-online 1364

Oberlandesgericht Linz (Higher Regional Court of Linz), 23 January 2006, CISG-online 1377

France

Cour de Cassation (French Supreme Court), 19 March 2002, CISG-online 662

Cour d'Appel Colmar (Court of Appeal of Colmar), 13 November 2002, CISG-online 792

Cour d'Appel Rouen (Court of Appeal of Rouen), 17 February 2000, Pace

Cour d'Appel Chambéry (Court of Appeal of Chambéry), 25 May 1993, CISG-online 223

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