

**THIRD PARTY'S INTELLECTUAL PROPERTY RIGHTS AND THE
SELLER'S LIABILITY UNDER THE UNITED NATIONS
CONVENTION ON INTERNATIONAL SALE OF GOODS (CISG) AND
THE SALE OF GOODS ACT (SGA)**

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Serife Esra Kiraz

LLB (Ufuk University, Turkey), LLM (Queen Mary, University of London,
United Kingdom)

School of Law
University of Leicester

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Abstract

This thesis is a comparative analysis of the provisions on the seller's duty to deliver the goods free from any third-party intellectual property rights (IPRs) under the United Nations Conventions on the International Sale of Goods (CISG) and the UK Sale of Goods Act 1979 (SGA). As a consequence of technological advancement, there has been an increased observance of the interaction between intellectual property rights (IPRs), which are intangible property rights, and tangible goods. As a result of this interaction, growing numbers of goods, which are either subject to IPRs as a whole or that possess an IP-protected component, have become subject to sales agreements. The circulation of the goods around the world increases the likelihood that third-party IPRs over the goods will be infringed. This risk of infringement also raises the possibility that the application of IP law remedies will prevent the buyer from reselling or using the goods in question.

This study is concerned with the question of how the sale of goods is affected by third-party IPRs, and it proposes to undertake a comparative analysis of the provisions that determine the seller's liability when third-party IPRs arise in relation to goods that are sold under the CISG and the SGA. It seeks to determine which instrument offers sufficient protection that will benefit the buyer. In attempting to reveal the sufficient protection, it also undertakes a comparative analysis of the remedies that are available to the buyer under the CISG and the SGA when third-party IPRs over the goods are raised. With regard to the widely acceptance of the CISG by 89 states, and the dominant role of English law in commercial law and its preference as a governing law to most contracts, it is aimed to determine the differences and similarities between the CISG and the SGA, and the practical consequences of their application to the contracts when third-party IPRs over the goods arise. The thesis will seek to determine if the text of the relevant CISG articles can be improved and will accordingly formulate proposals that work towards this outcome.

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List of Abbreviations

CDPA	Copyright, Designs and Patents Act 1988
CISG	United Nations Conventions on the International Sale of Goods
CJEU	The Court of Justice of the European Union
CPC	Community Patent Convention
DTI	Department of Trade and Industry
ECJ	The European Court of Justice
EPC	The European Patent Convention
IIP	Intellectual or Industrial Property
IP	Intellectual Property
IPR	Intellectual Property Right
s	Section (for English legislation)
SGA	Sale of Goods Act 1979
TDM	The EU Trademark Directive
TRIPS	The Agreement on Trade Related Aspects of Intellectual Property Rights
ULIF	The Uniform Law on the Formation of Contracts for the International Sale of Goods
ULIS	The Uniform Law on the International Sale of Goods
WCT	World Copyright Treaty
WIPO	World Intellectual Property Organization
WPPT	WIPO Performances and Phonograms Treaty
WTO	The World Trade Organization

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WIPO Performances and Phonograms Treaty

World Copyright Treaty

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CHAPTER ONE: INTRODUCTION

1.1. Introduction

In this technological and digital era, intellectual property (IP) is the main driver of innovation, development, and growth. Intellectual property rights (IPRs) seen as ‘tradable or business assets’ because of their nature as being a type of property they have the capacity to be assigned, licensed or used as a security.¹ The interaction between IPRs, which are intangible property rights, and tangible goods can be increasingly observed as there are a number of goods that are either subject to IPRs as a whole or that possess an IP-protected component.² As the volume of trade in the goods expands,³ the relationship between IP law and sale of goods strengthens in due proportion. Nevertheless, the relationship between the two branches of law and the effect of IPRs on the sale of goods (this arises from the goods being subject to IPRs) have both received insufficient attention.⁴

The IPR holder can prevent infringers from dealing with goods that infringe their IPRs by applying remedies, or the right holder can claim damages due to IPRs infringement, and the buyer of the infringing goods is therefore left to face these consequences. In such instances when the goods which carry a component subject to IPRs, but the licence agreement related to

¹ David I. Bainbridge, *Intellectual Property* (9th edn, Pearson 2012) 10; See Kenneth W. Dam, ‘The Growing Importance of International Protection of Intellectual Property’ (1987) 21 Int’l L. 627, 629. Dam refers to IPRs as ‘business assets.’ Ian David McClure, ‘Commoditizing Intellectual Property Rights: The Practicability of a Commercialized and Transparent International IPR Market and the Need for International Standards’ (2008) 6 Buff. Intell. Prop. L. J. 13; Maureen A. O’Rourke, ‘Rethinking Remedies at the Intersection of Intellectual Property and Contract: Toward a Unified Body of Law’ (1997) 82 Iowa L. Rev. 1137.

² See World Intellectual Property Report 2017 Intangible Capital in Global Value Chains (World Intellectual Property Organization, 2017) <http://www.wipo.int/edocs/pubdocs/en/wipo_pub_944_2017.pdf> accessed 18 October 2017; Enquires into Intellectual Property’s Economic Impact (OECD, 2015) <<http://www.oecd.org/sti/ieconomy/KBC2-IP.Final.pdf>> accessed 18 October 2017.

³ See The Economics and Statistic Administration and The United States Patent and Trademark Office, ‘Intellectual Property and the U.S. Economy: 2016 Update’ <<https://www.uspto.gov/sites/default/files/documents/IPandtheUSEconomySept2016.pdf>> accessed 15 April 2018. It is stated that: ‘[t]otal merchandise exports of IP-intensive industries increased to \$842 billion in 2014 from \$775 billion in 2010’. Ian Hargraves, ‘Digital Opportunity A Review of Intellectual Property and Growth’ (May, 2011) <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32563/ipreview-finalreport.pdf> accessed 17 November 2017. In the report, it is stated that ‘Global trade in patent and creative industry licences alone is now worth more than £600 billion a year, over five per cent of all world trade and rising.’

⁴ See Sean Thomas, ‘Sale of Goods and Intellectual Property: Problems with Ownership’ (2014) 96 Intellectual Property Forum 25; Robert Bradgate, Consumer Rights in Digital Products: A Research Report Prepared for the UK Department for Business, Innovation and Skills, (September 2010) available at <<http://www.bis.gov.uk/assets/biscore/consumer-issues/docs/c/10-1125-consumer-rights-in-digital-products>> accessed 9 May 2015.

the goods does not authorise their resale in certain countries, the buyer's resale activities at those locations not covered by the license can cause the infringement, and the right holder can prevent these activities by obtaining injunctions.⁵ As a result, the buyer's intention of using or reselling the goods in question is hampered. When an IPR infringement arises due to the sale of these goods, the buyer's rights and the seller's liability need to be ascertained.

The sale of goods protects the buyer's expectation in enjoyment the goods without any distribution; therefore, most domestic systems provide solutions for the situation when the seller failed to transfer the property in the goods to the buyer. However, with the advent of the technology, the IPRs begins to affect the enjoyment of the goods and risk of destroying the buyer's expectation in a sales agreement because third-party IPRs holders can prevent the buyer from dealing the goods in question by the available remedies. Consequently, it is required to consider third-party IPRs and the seller's liability within the scope of the sales law. These issues are examined on the basis of the United Nations Conventions on Contracts for the International Sale of Goods (CISG) and the UK Sale of Goods Act 1979 (SGA) considering the importance of these legal instruments within the commercial context. The CISG imposes a duty on the seller to deliver the goods free from any third-party IPRs,⁶ and the SGA has an implied term that requires the seller has a 'right to sell' and an implied warranty that the goods will be free from any charges or encumbrances and that the buyer will enjoy quiet possession.

This study is concerned with the question of how a sale of goods can be affected by third-party IPRs, and it proposes to undertake a comparative analysis of the provisions that determine the seller's liability when third-party IPRs arise in relation to goods that are sold under the CISG and the SGA. In seeking to determine the instrument that offers sufficient protection to the buyer, it undertakes a comparative analysis of the remedies that are available to the buyer under the CISG and the SGA when third-party IPRs claims are asserted over the goods in question.

1.2. The Rationales Behind the Thesis

1.2.1. Risk of Infringement by Sales

IP law is concerned with the protection of 'objects' that are the product of a creative or mental process.⁷ Although intangible property, including colours, inventions, and marks are registered

⁵ See *HTC Corporation v Nokia Corporation* [2013] EWCH 3247 (Pat).

⁶ United Nations Convention on Contracts for the International Sale of Goods, opened for signature April 10, 1980, Preamble, U.N. Doc. A/Conf. 97/18, Annex I.

⁷ See Jeremy J Philips and Alison Firth, *Introduction to Intellectual Property Law* (4th Ed, Butterwoths 2001) 3-4.

as IP, there is a link between intangible and tangible property.⁸ Various items have IPRs and are protected by IP law, including films and designs on clothes, along with highly complex products such as computer programs or smartphones. IPRs entirely surround us, and the risk of infringing them relates both to IP law and the parties engaged in a sale of goods agreement.

Under IP law, every jurisdiction defines the infringing activities. These are in general acts that are contrary to the exclusive rights of IPRs holders including making, offering for sale, selling, using or importing for any of these purposes, a protected invention, sign or work without the IPRs holders' consent.⁹ The buyer's commercial activities including importing, selling or using goods that are either manufactured with the authorisation of the rights holder or produced through an authorised process can cause infringement. In addition, the sale or import of authorised goods within territories that are not covered by the licence agreement provides another example of third-party IPRs being infringed by the sale of goods. However, it is counterfeit or pirated goods that provide the clearest example of infringing goods. The trade of counterfeit goods accounts for a significant proportion of world trade (2.5%),¹⁰ so a buyer can become part of this counterfeit trade unknowingly. These goods are generally seized at borders, where either they are destroyed, subjected to small consignment destruction, or a litigation process commences on the seized goods.¹¹ If the buyer either purchases these counterfeit goods or performs these acts, it is highly likely that he will enter into conflict with the right holder.

Although there is a risk of encountering third-party IPRs claims, it is open to question if this risk exists to a greater extent than would otherwise be the case. Because IPRs are territorial in nature, the protection of IPRs is offered in accordance with the jurisdiction where they are granted.¹² This territoriality suggests that the infringing activities should be held within the

⁸ Lionel Bently and Brad Sherman, *Intellectual Property Law* (3rd Edn, OUP 2008) 2; David Vaver, *Intellectual Property Rights: Critical Concepts in Law* (Volume One, Routledge 2006); Raymond T. Nimmer, and Patricia A. Krauthaus, 'Information as Property Databases and Commercial Property' (1993) 1 IJLIT 3.

⁹ Bently and Sherman (n 8).

¹⁰ See OECD/EUIPO (2016), *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact* (OECD Publishing 2016); Frontier Economics, 'The Economic Impacts Of Counterfeiting and Piracy' (Commission Report International Chamber of Commerce, Business Action to Stop Counterfeiting and Piracy (BASCAP) and International Trademark Association (INTA), 2017)

<https://www.inta.org/Communications/Documents/2017_Frontier_Report.pdf> accessed 5 November 2017; WIPO, Advisory Committee on Enforcement, (Geneva, 2011)

<http://www.wipo.int/edocs/mdocs/enforcement/en/wipo_ace_7/wipo_ace_7_5.pdf> accessed 5 November 2017.

¹¹ Marius Schneider and Olivier Vrins, *Enforcement of Intellectual Property Rights Through Border Measures Law and Practice in the EU* (OUP 2006). See also Report on EU Customs Enforcement of Intellectual Property Rights Results at the EU Border 2016 (European Commission, 2017)

<https://ec.europa.eu/taxation_customs/sites/taxation/files/report_on_eu_customs_enforcement_of_ipr_at_the_border_2017.pdf> accessed 6 November 2017; 2017 Situation Report on Counterfeiting and Piracy on the European Union (EUROPOL and EUIPO, 2017).

¹² Bently and Sherman (n 8) 6; Graeme B Dinwiddie, 'Developing a Private International Intellectual Property Law: The Demise of Territoriality?' (2009) 51 William and Mary Law Review 711; Timothy R Holbrook,

territory where the IPRs are protected, and upon this basis, it may be asserted that cross-border sales do not result in infringements unless the infringing goods or activities are brought into the respective jurisdictions. This uncertainty over the relationship between infringement and the jurisdiction leads the buyer of the goods to question if he will be subject to third-party IP claims.

However, it can also be argued that the existence of international IPRs agreements extends protection beyond these specific locations. The development of international trade and globalisation has encouraged right holders to search for IPRs protection that extends beyond national borders.¹³ Although international institutions have therefore adopted international agreements and conventions,¹⁴ these international and regional instruments do not establish global protection of IPRs, they do nonetheless oblige signatory countries to adjust their IP laws to comply with standards put in place by the agreements.¹⁵ Because these are only guidelines to be followed by the signatories, they do not provide universal protection; nonetheless, certain types of IPRs do make allowance for a single application, and the application takes effect within designated states on this basis.¹⁶ A buyer can still apply for a grant of protection that extends over subject matter across different jurisdictions.

The most important issue of third-party IPRs claims relating to goods purchased by the buyer is the application of IP remedies such as injunctions, delivery up or destruction of the infringing goods that prohibit the buyer's use or resale of related goods along with the damages. The buyer enters into a sales agreement with the intention of using or reselling goods that are referred to in the concluded contract, however, if an injunction is granted against the buyer to stop him selling the goods in question, this hampers the buyer's contractual intentions. The buyer may also potentially have the burden of paying damages to the right holders. When a

'Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad' (2004) 37 U.C. Davis L. Rev. 701.

¹³ See Paul Goldstein, *International Copyright: Principles, Law, and Practice* (OUP 2001) 16; William R. Cornish, 'The International Relations of Intellectual Property' (1993) 52 Cambridge Law Journal 46.

¹⁴ See *Ibid.* The Paris Convention for the Protection of Industrial Property (1883) and the Berne Convention for the Protection of Literary and Artistic Works (1886) were the first attempts to establish rules for IPRs that operated on an international basis by extending equal protection to all member states. In 1974, the World Intellectual Property Organization (WIPO) was established and it has since contributed to international IPRs. The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which applies to all members of the World Trade Organization (WTO), was signed in 1994.

¹⁵ See Jerome H. Reichman, 'Universal Minimum Standards of Intellectual Property Protection under the TRIPS Component of the WTO agreement' (1995) 29 Int'l L. 345; Bentley and Sherman (n 8). These international and supranational IP instruments also set minimum standards for IP protection. They generally cover subjects related with to requirements for registering as a type of IPR, the rights that are available for the IPRs holder, and the person who infringes IPRs.

¹⁶ See Patent Cooperation Treaty (PCT); The European Patent Convention (EPC) provides a single application process that considers the granting of a European patent that takes effect in the contracting states where the protection is focused.

buyer unknowingly purchases the goods, which are subject to third-party IPRs, the question of whether the buyer should be required to bear the detrimental results of IPRs that are associated with the goods needs to be examined with reference to sales law.

Sales law generally requires that the seller must sell the goods within the certain quality or fitness of particular purpose,¹⁷ and the existence of third-party rights over the goods is contrary to the seller's obligations. Generally, the seller's liability for third-parties' property rights over the goods in question is determined in a strict sense;¹⁸ however, the situation of a buyer who left in a position to pay damages to or undertake litigation against the third-parties due to IPRs has not been examined in extensively. Therefore, this thesis questions whether the buyer should encounter with these claims by himself and face with any outcomes of the claims. The answer to this question is crucial for the buyer when there are no available exceptions that the buyer may rely upon when defending himself against the infringement claims. When the court approves that the goods in question infringe third-party's IPR, the buyer will be liable regardless of his awareness of the IPRs attached component of the goods. Otherwise, the buyer cannot claim his lack of information about the scope of licence agreement related the to IPRs over the goods, (which may not extend to certain countries where the buyer conducts his business).

In such cases, the buyer wants to turn back to the sales agreement and seek for the seller's liability for third-party IPRs. It is essential to promote security and the clarity in the commercial transactions, therefore, determining whether a buyer can rely upon the seller's liability in case of third-party IPRs over the goods assists to reach this security and clarity. As the result of the increase in international sales, the parties to an international sales contract need to consider the potential consequences of buying or selling goods that are subject to IPRs before they enter into sales agreements. A consideration of the consequences (such as liability and remedies) may enhance trade security and positively impact on international sales.

1.2.2. The Choice of the CISG and the SGA under the Thesis

The CISG was ratified in 1980 efforts of the United Nations Commission on International Trade Law (UNCITRAL).¹⁹ In 1988, it came into force in eleven contracting states.²⁰ Efforts

¹⁷ See Martin Davies and David V. Snyder, *International Transactions in Goods: Global Sales in Comparative Context* (OUP 2014) 185-188.

¹⁸ See Michael Bridge and others (eds), *Benjamin's Sale of Goods* (9th edition (Inc. Supp), Sweet & Maxwell 2014).

¹⁹ For the history see Peter Schlechtriem, *Uniform Sales Law- The UN-Convention on Contracts for the International Sale of Goods* (Manz 1986).

²⁰ The states were: United States, France, Argentina, Italy, China, Egypt, Hungary, Lesotho, Syria, Yugoslavia and Zambia.

to achieve unification began with the International Institute for the Unification of Private Law (UNIDROIT), which prepared the Uniform Law on the Formation of Contracts for the International Sale of Goods (ULFIS) and the Uniform Law on the International Sale of Goods (ULIS). These laws were the CISG's antecedents, and they were established with the objective of creating international rules that applied to parties that operated different legal systems. However, their acceptance was not widespread,²¹ and the CISG, which has 89 signatory countries, can be said to be a far more successful instrument in this respect.²²

The CISG's aim, which is set out clearly in its preamble, is to enable uniformity in the area of international sales to contribute to the development of international trade. In working towards uniformity, the CISG seeks to establish a compromise between civil and common law approaches by recognising their economic, legal and social diversity.²³ When it has left an issue open, the CISG has stressed its international character and suggested that interpretations need to be made in accordance with it.²⁴

As a uniform law instrument, the CISG has a pivotal role within the international trade, and this helps to explain why increasing numbers of contracts are governed by the CISG.²⁵ It applies when the conditions set out in Article 1 are met and if the parties do not prefer to opt out of its application,²⁶ and instead indicate their willingness to see the CISG applied to their

²¹ There were only nine signatory countries: Gambia, Germany, Great Britain, Israel, Italy, Luxembourg, the Netherlands and San Marino. See Amy H. Kastely, 'Unification and Community: A Rhetorical Analysis of the United Nations Sales Convention' (1988) 8 Nw. J. Int'l L. & Bus. 574; See Stephen Bainbridge, 'Trade Usages in International Sales of Goods: An Analysis of the 1964 and 1980 Sales Conventions' (1984) 24 Virginia Journal of International Law 619.

²² See Bruno Zeller, 'Significance of the Vienna Convention on the International Sale of Goods for the Harmonisation and Transplantation of International Commercial Law' (2006) 17 Stellenbosch L. Rev. 466; Ingeborg Schwenzer and Pascal Hachem, 'The CISG—Successes and Pitfalls' (2009) 57 The AJCL 457. The list of the Contracting States can be found at <http://www.uncitral.org/uncitral/uncitral_texts/sale_goods/1980CISG_status.html> accessed 25 October 2018.

²³ Sara G. Zwart, 'The New International Law of Sales: A Marriage Between Socialist, Third World, Common, and Civil Law Principles' (1988) 13 NCJ Int'l L. & Com. Reg. 109; Johan Erauw and Harry M. Flechtner, 'Remedies under the CISG and Limits to Their Uniform Character' in Peter Sarcevic and Paul Volken (eds) *The International Sale of Goods Revisited* (Kluwer Law International 2001) 35, 41; Camilla Baasch Andersen, 'Defining Uniformity in Law' (2007) 5 Unif. L. Rev. 5.

²⁴ Franco Ferrari, 'Have the Dragons of Uniform Sales Law Been Tamed? Ruminations on the CISG's Autonomous Interpretation by Courts' in Camilla B. Andersen & Ulrich G. Schroeter (eds.) *Sharing International Commercial Law across National Boundaries: Festschrift for Albert H. Kritzer on the Occasion of his Eightieth Birthday* (Wildy, Simmonds & Hill Publishing 2008) 134; Larry A. DiMatteo, 'Harmonization of International Sales Law' in Larry A. DiMatteo, Qi Zhou, Severine Saintier and Keith Rowley (eds) *Commercial Contract Law Transatlantic Perspectives* (CUP 2013) 559.

²⁵ Ingeborg Schwenzer and Christopher Kee, 'International Sales Law-The Actual Practice' (2011) 29 Penn St. Int'l L. Rev. 425; Ulrich G. Schroeter, 'Empirical Evidence of Courts' and Counsels' Approach to the CISG (with Some Remarks on Professional Liability)' in Larry DiMatteo (eds) *International Sales Law A Global Challenge* (CUP 2014) 649.

²⁶ Article 1(1) states that the CISG is applicable to sales contracts between parties whose places of business are located in different contracting states. This applies in instances when a place of business is located outside the CISG Contracting States or when the rules of private international law directly impinge on the law of a contracting state. Article 6 of the CISG also allows the parties to exclude the CISG or derogate from provisions

contracts. The CISG then, with reference to the contract, determines the respective rights and obligations of the buyer and seller.

Although the United Kingdom was represented at the drafting process and had influenced the final draft,²⁷ it has not ratified the CISG. Two consultation papers were issued by the Department of Trade and Industry (DTI) in 1989 and 1997 on the ratification of the CISG by the UK.²⁸ A reluctance to ratify the CISG was observed as a result of the replies to the consultation paper issued in 1989. There were two main reasons behind this reluctance. Firstly, it was argued that the CISG did not provide such uniformity, thereof it was stated that ‘we think they [certain differences] are not such as to make the uniform law more attractive to traders than the existing UK law.’²⁹ Secondly, it was believed that the English law would lose its unique and dominant position in the commercial trade by the ratification.³⁰ With the second consultation paper, the DTI changed its position and recommended the ratification of the CISG.³¹ However, the failure to ratify the CISG is explained by Moss that ‘Ministers do not see the ratification of the Convention as a legislative priority.’³²

This thesis compares the rules for third-party IPRs issues and the buyer’s remedies under the CISG and the SGA. The focus is on the CISG and the SGA regarding the fact that their importance in the international sales law. By the ratification of 89 States, including the important trading states such as the US and China, the CISG becomes a vital role in commercial practices.³³ On the other hand, the UK plays a dominant role in commercial practices and

selected by the parties. See Peter Schlechtriem, ‘Requirements of Application and Sphere of Applicability of the CISG’ (2005) 36 *Victoria U. Wellington L. Rev.* 781.

²⁷ As examples for the various comments that the representative of the United Kingdom was made on the drafting of the CISG see A/C.N.9/100, Add 1-4, Annex II ‘Text of Comments and proposals of representatives on the revised text of uniform law on the international sale of goods as approved or deferred for further consideration by the Working Group at its first five sessions’, (27 January-7 February 1975, New York); A/C.N.9/197, Report of Working Group on International Practices on the work of its second session’ (13-17 April 1981, New York). Also See Barry Nicholas, ‘The Vienna Convention on International Sales Law’ (1989) 105 *LQR* 201.

²⁸ See Sally Moss, ‘Why the United Kingdom Has not Ratified the CISG’ (2006) 25 *J.L. & Com.* 483; Mary J Wallace, ‘Instruments of International Commercial Harmonisation in England and Wales: How ‘International’ is International Commercial Law’ (PhD Thesis, University of East Anglia 2013) 267-268.

²⁹ The Law Society, 1980 Convention of Contracts for the International Sale of Goods, Comments by the Council’s Law Reform Committee (April 1981) in Angelo Forte, ‘The United Nations Convention on Contracts for the International Sale of Goods: Reason and Unreason in the United Kingdom’ (1997) 26 *U. Balt. Rev.* 51, 58.

³⁰ *Ibid*; Barry Nicholas, ‘The United Kingdom and the Vienna Sales Convention: Another Case of Splendid Isolation?’ *Saggi Conferenze e Seminari* 9 (March 1993)

<https://www.cisg.law.pace.edu/cisg/biblio/nicholas3.html> accessed 27 October 2018.

³¹ Michael Bridge, ‘Do We Need a New Sale of Goods Act’ in John Lowry and Loukas Mistelis (eds) *Commercial Law: Perspectives and Practice* (Butterworths 2006) 2.1., 2.64; Darren Peacock, ‘Avoidance and the Notion of Fundamental Breach under the CISG: an English Perspective’ (2003) 8 *Int’l. Trade & Bus. L. Ann.* 95.

³² Moss (n 28).

³³ Schwenger/Hachem (n 22).

especially commodity sales.³⁴ Based on their importance, this thesis seeks to reveal the differences and similarities between the CISG and the SGA to determine the practical consequences to an international buyer when third-party IPRs over the goods arise.

Despite that the UK is not a signatory to the CISG, as being explained below; still there is a room for the application of the CISG within the English courts, and conversely the application of English sales law to the CISG cases.³⁵ On the contrary, the CISG parties are free to opt out the application of the CISG as a whole or any of its provisions. Regarding these possibilities, it is beneficial for the parties to learn the advantages or disadvantages to applying one instrument instead of the other.

According to Article 1(a), the CISG governs the sales contracts between the parties whose places of business are located in different contracting states. The CISG is applicable when the rules of private international law (PIL) refer to the application of the law of a contracting state pursuant to Article 1(b). There is no need that the contracting parties should be from the CISG's member states.³⁶ When a conflict arises between an English trader and a party from the CISG's contracting state under which the CISG becomes a part of its sales law, the court of this contracting state would apply the CISG to the case.³⁷ Where an English court hears this conflict, the CISG would be applied either based on rules of PIL or if the counterparty is from an EU country with reference to Rome Regulation.³⁸ For example, in *Kingspan Environmental*

³⁴ Michael Bridge, 'A Law for International Sales' (2007) 37 Hong Kong Law Journal 17; Koji Takahashi, 'Right to Terminate (Avoid) International Sales of Commodities' [2003] Journal of Business Law 102.

³⁵ Article 4 excludes the validity of the contracts and issues related to the property. This is generally solved in accordance with applicable domestic law. It can be argued that English law can supplement these matters on the basis of reference made by PIL or the party's choice of English law. In relation to the applicability of English law, this is on Article 7(2), which establishes the process of filling the gaps for the matters governed by the CISG. It states that in the absence of the general principles on which the CISG is based, the gaps need to be filled 'in conformity with the law applicable by virtue of the rules of private international law. In this context, it is argued that the SGA can be used as a tool to supplement the CISG. See Helen Elizabeth Hartnell, 'Rousing the Sleeping Dog: The Validity Exception to the Convention on Contracts for the International Sale of Goods' (1993) 18 Yale J. Int'l L. 1; Bruno Zeller, 'Four-Corners- The Methodology for Interpretation and Application of the UN Convention on Contracts for International Sale of Goods' Pace Law School Working Paper 2003 <<http://www.cisg.law.pace.edu/cisg/biblio/4corners.html#chp2>> accessed 9 November 2018.

³⁶ See Secretariat Commentary, 'Article [1]' in UN, *United Nations Conference on Contracts for the International Sale of Goods; Official Records* (UN Doc A/CONF.97/19) note 7. It is stated that 'Even if one or both of the parties to the contract have their places of business in a State which is not a Contracting State, the Convention is applicable if the rules of private international law of the forum lead to the application of the law of a Contracting State. In such a situation the question is then which law of sales of that State shall apply. If the parties to the contract are from different States, the appropriate law of sales is this Convention.'

³⁷ Jan H. Dalhuisen, *Dalhuisen on International Commercial, Financial and Trade Law* (Hart 2007) available at <<https://www.cisg.law.pace.edu/cisg/biblio/dalhuisen.html>> accessed 7 November 2018; Anna Rogowska, 'CISG in the United Kingdom: How does the CISG govern the Contractual Relations of English Businessmen?' (2007) 7 I.C.C.L.R. 226; Anna Rogowska, 'A Comparative Study of the Principles of Contract Formation over the CISG and English Common Law in the Light of Desirability of Accession to the CISG by the UK' (PhD Thesis, University of Essex 2012).

³⁸ Ibid, Franco Ferrari, 'What Sources of Law for Contracts for the International Sale of Goods? Why One has to Look Beyond the CISG' (2005) 25 International Review of Law and Economics 314, 316-317.

Limited v Boralis A/S,³⁹ the court held that the applicable law was Danish law, based on the fact that Danish Law had incorporated the CISG, Article 35 of the CISG was applied to the issues raised under the case.

It is also possible that the CISG may be applied by the courts or the arbitral tribunals as a consequence of the relevant articles of the ICC Rules of Arbitration being applied, and it is even possible the parties may choose the application of the CISG.⁴⁰ When these situations are considered, it is possible that an English trader will be bound by the CISG when trading. Therefore, the CISG is not entirely irrelevant to the activities of English traders, and they will accordingly need to build some knowledge of it. The comparison of the CISG and the SGA will be of considerable assistance for the international sales parties in order to decide upon the choice of forum when third-party IPRs over the goods arise.

While English traders may be bound with the CISG due to situations mentioned above, conversely, the CISG parties may also choose to apply English law to their contracts according to the CISG Article 6 that enables the parties to exclude the CISG as a whole or any of its provisions. In this case, the parties need to know what are the consequences of governing their contracts by English law, especially in terms of the application of English law to third-party IPRs cases.

Considering the CISG Article 6, it depends upon the party's autonomy to choose which law applies to govern their contracts. The various surveys have been conducted to examine the extent of the application of the CISG, and they revealed that its exclusion is observed quite commonly in certain jurisdictions. In Global Sales Law survey conducted in 2009 with the support of UNCITRAL, it was found that 12% of the US respondents 'always' excluded the CISG, 42% 'sometimes' excluded it and 46% 'never or rarely' excluded.⁴¹ A recent survey reveals that the CISG was opted out in 'approximately 69%' of the 5,092 contracts.⁴² In Germany, the exclusion rate is found as 42.17%.⁴³ In Global Sales Law survey, overall results of the exclusion within the participants from all the CISG member states showed that 13%

³⁹ [2012] EWHC 1147 (Comm).

⁴⁰ Rogowska, 'CISG in the United Kingdom' (n 37).

⁴¹ Schwenzer and Kee (n 25) 434; Schroeter (n 25) 649.

⁴² John F. Coyle, 'The Role of the CISG in US Contract Practice: An Empirical Study' (2006) 38 U. Pa. J. Int'l L. 195, 219.

⁴³ Justus Meyer, 'UN-Kaufrecht in der deutschen Anwaltspraxis' (2005) 69 *Rechtszeitschrift für ausländisches und internationales Privatrecht* 457 in Lisa Spagnolo, 'Green Eggs and Ham: The CISG, Path Dependence, and the Behavioural Economics of Lawyers' Choices of Law in International Sales Contracts' (2010) 6 *Journal of Private International Law* 417. In another survey found that 72.7% of German respondents preferred to opt out the CISG. See Martin F. Koehler, 'Survey Regarding the Relevance of the United Nations Convention for the International Sale of Goods (CISG) in Legal Practice and the Exclusion of its Application' (October 2006) <<http://cisgw3.law.pace.edu/cisg/biblio/koehler.html#viii>> accessed 17 November 2018.

‘always’ excluded and 32% ‘sometimes’ excluded the CISG.⁴⁴ There are various reasons underneath this exclusion such as unfamiliarity of the CISG, learning costs, bargaining strength, concerns over the structure and practical outcomes of the CISG.⁴⁵

Because excluding the CISG is a real concern, it is that also possible the parties can prefer English law as a governing law to their sales contracts.⁴⁶ An empirical study that examined more than 4400 contracts found that English law is the most preferred option favourably in comparison to French, German, Swiss and the US Law.⁴⁷ The preference can be caused on the ground that English law acknowledges the needs of commerce and the development of case law also provides the consistency and clarity.⁴⁸ When dealing the seller’s liability for third-party IPRs, the parties may opt out of applying Article 42 and instead indicate a preference for s12 of the SGA.

As this thesis compares the CISG and the SGA with the aim of answering what the practical consequence of applying one instead of the other to IPRs issues is, the thesis reveals that despite their vague wording, both of them has advantages and disadvantages. For example, the SGA provides a continues warranty under s12(2), but the CISG does not allow to apply for the seller’s liability for third-party IPRs which come into existence after the goods are delivered. However, as being an advantage, the liability under the CISG Article 42 extends over the buyer’s sub-buyers, which is not available under the SGA.

The comparison also illustrates the differences and the similarities between the CISG and the SGA. Considering that the CISG is a bridge between the common and civil law systems, and the UK’s role in drafting it, the CISG carries some elements from English law. For example, as it will be examined in remedies chapter, Article 28 of the CISG drafted in accordance to the proposals raised by the UK, as a result of this, the award of specific performance depends on the courts’ discretion likewise the UK’s approach.⁴⁹ The similarities can assist to develop the understanding of the CISG jurisprudence. Nonetheless, the CISG does not completely cover

⁴⁴ Schwenzler and Kee (n 25) 434; Schroeter (n 25) 661.

⁴⁵ Spagnolo (n 43); Martin F. Koehler and Guo Yujun, ‘The Acceptance of the Unified Sales Law (CISG) in Different Legal Systems’ (2008) 20 Pace Int’l L. Rev. 45.

⁴⁶ Benjamin Hayward, Bruno Zeller and Camilla B. Andersen, ‘The CISG and the United Kingdom-Exploring Coherency and Private International Law’ (2018) 67 ICLQ 607.

⁴⁷ Gilles Cuniberti, ‘The International Market for Contracts: The Most Attractive Contract Laws’ (2014) 34 Nw. J. Int’l L. & Bus. 455, Also see Spagnolo (n 43).

⁴⁸ See Qi Zhou, ‘The CISG and English Law: An Unfair Competition’ in DiMatteo, *International Sales Law A Global Challenge* (n 25) 669; Michael Bridge, ‘The UK Sale of Goods Act, the CISG and the UNIDROIT Principles’ in Sarcevic and Volken, *The International Sale of Goods Revisited* (n 23) 115.

⁴⁹ See Summary Record of First Committee 13th Meeting in *Official Records* (n 36) 304-305.

the common law concepts and some departure from is observed.⁵⁰ In that regard, the UK's position as a dominant actor in the commerce, and the preference of English law as the applicable law to the contracts of the parties lead to examine its solutions for a specific problem.

Apart from the benefits of this comparative analysis to the parties of an international sales contract when they choose the forum, this analysis also sheds light to the arguments arising under the CISG literature. It is suggested that since the parties are free to opt out Article 42, the application of domestic law brings more clarity. The comparison of the SGA can solve the question of whether or not a domestic law solution is more advantageous for an international buyer when third-party IPRs arose. Because English law is highly preferred as applicable by the parties, and it is considered as serving the needs of international commerce,⁵¹ an analysis over its rules can offer valuable insight when offering solutions to the buyer for IPRs issues. Therefore, when the parties choose which of these instruments (CISG or the SGA) will be governing law of the contract, the comparative analysis under this thesis provides both advantages and disadvantages of application one instead of the other to the third-party IPRs cases.

Alternatively, English law can also benefit from the CISG to aid interpretation of some of its contractual rules.⁵² Roy Goode claims that 'even domestic legislation has the potential to contribute to the harmonisation of commercial law, by process of borrowing and lending.'⁵³ Also, Zeller believes that 'the CISG has been the source or inspiration for many transplants. Importantly aspects of the CISG have not only been adopted into domestic law but also into other conventions. Hence the CISG is not only an example of harmonisation but transplantation as well.'⁵⁴

So far, there have only been seven cases where the English courts have applied the CISG,⁵⁵ three of which occurred in between English parties.⁵⁶ When these cases were heard, the courts

⁵⁰ See Henning Lutz, 'The CISG and Common Law Courts: Is There Really a Problem?' (2004) 35 *Victoria U. Wellington L. Rev.* 711, 718-719.

⁵¹ Zhou (n 48) 671-672; Bridge, 'The UK Sale of Goods Act' (n 48) 116.

⁵² Michael Joachim Bonell, 'The UNIDROIT Principles and CISG-Sources of Inspiration for English Courts?' (2007) 19 *Pace Int'l L. Rev.* 9.

⁵³ Roy Goode, 'Insularity or Leadership? The Role of the United Kingdom in the Harmonisation of Commercial Law' (2001) 50 *ICLQ* 751, 759; Camilla Baasch Andersen, 'United Kingdom' in Franco Ferrari (eds) *The CISG and its Impact on National Legal Systems* (Sellier European Law Publishers 2008) 307-308.

⁵⁴ Bruno Zeller, 'The Significance of the CISG for the Harmonisation and Transplantation of International Commercial Law' (Working Paper 2002) <<http://vuir.vu.edu.au/857/1/ZellerSigCISGHarmonisation.pdf>> accessed 3 December 2018.

⁵⁵ The list of cases available at <<http://www.cisg.law.pace.edu/cisg/text/casecit.html#UK>> accessed 10 November 2018.

⁵⁶ *ProForce Recruit Ltd. v Rugby Group Ltd* [2006] EWCA Civ 69; *Square Mile Partnership Ltd v Fitzmaurice McCall Ltd* [2006] EWCA Civ 1690; *Chartbrook Ltd v Persimmon Homes Ltd*. 2009 [UKHL] 38.

referred to the CISG concerning the admissibility of pre-contractual issues. For example, in *ProForce Recruit Ltd. v Rugby Group Ltd.*, Arden LJ stated that

It may be appropriate to consider a number of international instruments applying to contracts. It is sufficient to take two examples. [...] The UN Convention on Contracts for the International Sale of Goods (1980) provides that a party's intention is in certain circumstances relevant, and in determining that intention regard is to be had to all relevant circumstances, including preliminary negotiations.⁵⁷

Although the number of English cases that refer to the CISG is limited, the acknowledgement of the CISG as a tool for interpreting English law is a remarkable attempt towards the CISG jurisprudence made by English courts.⁵⁸

In that regard, it can also be possible that the UK law can benefit from the CISG's approach of for third-party IPRs issues. Because this thesis examines the IPRs issues by illustrating the importance of the subject, the needs of the buyer, and the circumstances arising from IP, therefore it identifies the facts that should be considered when dealing with the IPRs issues within the sales context and how the law should respond these issues. Therefore, as Goode claims, rules that are specifically designed for third-party IPRs issues can be brought to English law 'by process of borrowing and lending.'

Overall, this thesis compares the CISG and the SGA because the applicability of the CISG by English courts and English traders is not restricted by the UK's non-ratification of the CISG. In addition to this, these two instruments can benefit from the other in order to supplement their gaps or provisions is available.

1.3. The Thesis

This thesis provides a comparative analysis of the seller's duty to deliver the goods free from third-party IPRs under the CISG and the SGA. It establishes the relationship between IP and sales law and then examines the seller's liability that is determined by these legal instruments, with the intention of identifying which one provides sufficient remedies to the buyer in the event of an infringement of an IPR.

Various domestic laws establish that the seller is obliged to deliver the goods free from third-party rights and claims, and this stipulation is also believed to extend to IPRs issues.⁵⁹

⁵⁷ *ProForce* (n 56) at 57.

⁵⁸ Similar view Andersen, 'United Kingdom' (n 53).

⁵⁹ Ingeborg Schwenzer, 'Article 42' in Ingeborg Schwenzer (eds) *Schlechtriem & Schwenzer: Commentary on the UN Convention on the International Sale of Goods (CISG)* (4th Ed, OUP 2016) 693. For the national laws

However, there is little literature and case law regarding the IPRs issues arisen in a sale of goods agreement. This lack of extensive literature and cases can be attributed either the lack of specific reference to IPRs defects within the scope of these domestic provisions or the low awareness of IP law and the increasing risk of IPRs infringements by sales of law.⁶⁰ The CISG sought to provide the contractual parties with predictability and security in the trade by inserting a specific provision that sets the seller's liability for delivering the goods free from third-party IPRs in acknowledging the emerging importance and complexity of IPRs within the international sale of goods context.⁶¹

In the CISG literature, there has been no extensive research on this topic. In referring to the CISG, commentaries and a few articles have referred to the third-party IPRs issue, but they have by no means contributed to a coherent understanding or a uniform application of Article 42. Meanwhile, the SGA has not even been considered IPRs issues within its scope. Despite this fact, three cases involving IPRs were resolved with reference to s12 of the SGA. Within this thesis, the seller's liability in relation to third-party IPR over the goods which he sold is examined extensively with reference to potential scenarios that could arise within the context of IP and sales law. It is essential for the buyer to be aware of the scope of the seller's liability for these goods which cause IPRs claims before entering into a contract on the basis of the buyer's risk assessment.

Kröll acknowledges that “with the advent of ‘information age’ and ‘digital revolution’ it can be assumed that the provision [Article 42] will gain even greater practical importance.”⁶² In this regard, it is significant to demonstrate that IP law is a live issue in the international sale of goods and that its infringement may lead to injunctions, litigation and the payment of damages to the right holder. This research seeks to demonstrate that the parties should not ignore these problems and should instead approach these issues with caution when concluding a sales contract.

The thesis aims to determine which instrument provides sufficient protection to the buyer. This aim can only be achieved by examining the remedies that the CISG and the SGA provide to

see SGA s12, Canadian Ontario Sale of Goods Act s.13, German BGB Article 433, Turkish Code of Obligations (Law No 6098) Article 214, US the Uniform Commercial Code § 2-312(3).

⁶⁰ Bradgate (n 4) para 10. He stated that ‘[t]he UK is not alone in lacking specific legal provision in this area. In most jurisdictions the matter has been left, to date, to the courts to resolve by applying non-subject specific legislation, which was, generally, drafted for the pre-digital age.’ Donald J. Smythe, ‘Clearing the Clouds on the CISG's Warranty of Title’ (2016) 36 *Nw. J. Int'l L. & Bus.* 509, 513. For the US law, the author stated that the case law in the light of ‘UCC § 2-312(3), which governs intellectual property claims, is not as well developed.’

⁶¹ John O. Honnold, *Documentary History of the Uniform Law for International Sale* (Kluwer Law and Taxation Publishers 1989) 545-549. For a detailed background see ‘3.2.2.1.’

⁶² Stefan Kröll, ‘Article 42’ in Stefan Kröll, Loukas Mistelis and Maria del Pilar Perales Viscasillas (eds) *UN Convention on Contracts for the International Sale of Goods (CISG)* (Hart 2011) 648.

the buyer when third-party IPRs and claims are asserted over the goods in question. In presenting an analysis of the remedies, the thesis offers distinctive research that undoubtedly contributes to the literature that, in the instances where there has been some academic engagement with the issues, it has tended to be very brief and given only cursory treatment. Also, the thesis will seek to determine whether the text of the relevant CISG articles can be improved and will formulate proposals for improvement as appropriate.

The CISG's remedial system differs from the SGA's.⁶³ The CISG is comprised of civil and common law systems, and it, therefore, contains remedies that are available under both systems, and where it prioritises the preservation of the contract and treat its avoidance as a last resort.⁶⁴ On the other hand, the prevailing remedy under common law is damages, and this is what the SGA emphasises.

This study provides a general overview of the remedies under each instrument, and analyses the buyer's right to require performance, the right to fix additional time, the seller's right to remedy the failure to perform, and the right to avoid the contract and damages respectively. A comparative analysis of each type of remedy is carried out, and an overall comparison of the remedies under the two instruments is provided.

1.4. Third-Party IPRs under the CISG

The CISG determines the rights and obligations of the buyer and seller under the contract and obliges the seller to deliver the goods in a certain quality, quantity or description. Hence, the seller should also deliver the goods free from any third-party rights and claims. The CISG contains two articles and distinguishes the third-party intellectual or industrial property (hereinafter IIP) from other third-party rights.

Article 41, which obliges the seller to deliver the goods free from any third-party rights and claims, constitutes general rules that relate to third-party rights and claims; and refers to Article 42 for third-party rights and claims that are based on IIP. While Article 42 is the main focus of this study, it is important to note that any analysis of Article 42 must take into account the extent and meaning of Article 41.

⁶³ Zwart (n 23).

⁶⁴ See Harry M Flechtner, 'Buyers' Remedies in General and Buyers' Performance-Oriented Remedies' (2005) 25 J.L. & Com. 339; Peter Huber, 'CISG—The Structure of Remedies' [2007] *Rabels Zeitschrift für ausländisches und internationales Privatrecht* 13; See *Bundesgerichtshof* (Germany) 3 April 1996 (PACE) (*Cobalt sulphate case*). The court states that 'avoidance of contract is only supposed to be the [buyer]'s last resort to react to a breach of contract.'

Article 42 has become subject to ongoing debate due to its vague wording.⁶⁵ This vagueness is attributable to the phrases that affect the seller's liability and the remedies that are available to the buyer. Within the literature, the actual meaning of the phrases used in the Article's wording and the threshold of the liability created by the phrases have given rise to widespread discussion and the expression of divergent views.⁶⁶ Unfortunately, this means that the threshold of the seller's liability varies, and the aim of a uniform application under the CISG has consequently been hampered. There is a clear need for a precise understanding of the actual meaning of the phrase in question because it plays an essential role in determining whether the seller can be held liable. This study, therefore, provides an in-depth analysis of Article 42 that analyses its aims, the meaning of its terminological structure and the protection that it extends to buyers and sellers. Article 42 also imposes territorial limitations, which means that the seller will be liable for infringements that occur within the signatory states specified by the article. These territorial limitations mean that the Article may not impose liability unless the buyer states the name of the countries explicitly at the time of the conclusion of the contract. It, therefore, needs to be ascertained if the seller can object to the use or resale of the goods within a certain state that has been requested by the buyer. If this is the case, it raises the question of the circumstances under which the seller is allowed to reject the buyer's claim. There is also the question of how many states the parties can contemplate along with the issue of if there is a maximum number of states. This study examines these questions and also asks if claims that are potential and brought against the buyer's sub-buyer in another country may lead to the application of the first seller's liability.

There are also some issues that relate to the precise time when goods must be handed over free from third-party IPRs. The precise time is important for determining if the seller can be held liable. The moment when the seller's liability for delivering the goods free from third-party IPRs begins should be clarified in order to reach a conclusion about the seller's liability. In relating to third-party IPRs and claims, Article 42 also provides an exception from liability based on the buyer's knowledge of third-party IPRs and claims. The standard imposed on the buyer's knowledge, the conditions under which this knowledge exempts the seller from liability, are also questions that are examined in this thesis.

⁶⁵ See Kröll (n 62); Christian Rauda and Guillaume Etier, 'Warranty for Intellectual Property Rights in the International Sale of Goods' (2000) 4 *Vindobona J. Intl'L Com. L. & Arb.* 30, 33; Anthony VanDuzer, 'A Seller's Responsibility for Third-party Intellectual Property Claims: Are the UN Sales Convention Rules Better?' (2001) 4 *Canadian International Lawyer* 187; Allen M. Jr. Shinn, 'Liabilities under Article 42 of the UN Convention on the International Sale of Goods' (1993) 2 *Minn. J. Global Trade* 115.

⁶⁶ For a detailed summary of the views see Rauda/Etier (n 65) 45.

As a result of Article 42's the vague wording and the limitations imposed on the seller's liability, some academics have proposed opting out of the article and instead applying domestic law solutions, arguing that this will help to enhance commercial certainty.⁶⁷ It is also important to note that Article 6 of the CISG enables parties to derogate from its provisions, as this adversely impacts uniformity, which is the anticipated benefit of the CISG. Considering the uniformity, this study focuses on solutions, in preference to the advantages of derogation and the application of other rules. The presentation of a better understanding and a uniform interpretation of Article 42 may make parties to international contracts more predisposed to use the CISG, and Article 42 in particular.

1.5. The Situation under the SGA

Section 12(1) of the SGA establishes that a seller is obliged to transfer a good title to the buyer, with requiring the seller to have 'a right to sell' at the time when the property is to pass. This thesis investigates the meaning of 'right to sell' in the scope of the SGA and the extent to which third-party IPRs cast a shadow over the seller's right to sell. Section 12(1) resembles Article 41 of the CISG because they both seek to transfer property without any disturbance. This may prevent the enjoyment of quiet possession, despite the fact that the CISG does not deal with the passing of the property. Under the CISG, this problem is left to domestic legal regulation. The CISG establishes that it is the duty of the seller to deliver the goods free from any third-party rights and claims, and explicitly refers to third-parties. This explicit reference is contrary to the wording of section 12 of the SGA 1979, which does not contain any reference to third-parties.

According to s12(2) of the SGA, the seller impliedly warrants that the goods will be free from any charges or encumbrances and that the buyer will enjoy quiet possession. However, what amounts to 'charges and encumbrances' within the scope of s12(2) is not properly specified. This thesis, therefore, seeks to ascertain the meaning of these terms, along with the question of if IPRs can be placed within the scope of 'charges or encumbrances'. In addition, the extension of IPRs over the goods, or the scope and reach of 'boundaries of quiet possession', are also examined.

The effect of third-party IPRs on goods that are, under s12, subject to the seller's liability has not been extensively discussed in the literature. This lack of analysis of IPRs can be alternately

⁶⁷ See John Honnold, *Uniform Law for International Sales under the 1980 United Nations Convention* (4th Ed, Wolters Kluwer Law and Business 2009); Joseph J. Schwerha IV, 'Warranties against Infringement in the Sale of Goods: A Comparison of U.C.C. § 2-312(3) and Article 42 of the U.N. Convention on Contracts for the International Sale of Goods' (1995) 16 Michigan J. Int'l L. 441; VanDuzer (n 65); Shinn (n 65).

attributed to a lack of awareness of recent technological changes (a development that has accelerated the production of goods subject to IPRs),⁶⁸ or to the limited case law produced to date. The question of how third-party's IPRs cause a breach of s12 is also examined, along with the extent to which a seller is held to be liable to a buyer by the obligations that subsections of s12 impose on him. Differences and similarities between s12 and Article 42 of the CISG are also set out in explicitly.

1.6. Methodology

This thesis employs a comparative analysis to determine how the seller's liability for third-party IPRs extends over the goods. It also seeks to identify the applicable remedies of these two legal instruments and to provide an analysis of which one offers sufficient protection for the buyer confronted by third-party IPRs and claims. As the buyer aims to trade over the goods he purchased without encountering with any disturbance, it is necessary to reveal the protection offered to him to overcome these disturbances. Considering this a closer engagement with the basis on which protection will be 'provided', along with a clearer exposition of the precise conduct of the comparative analysis.

1.6.1. Determining Sufficiency

In addition to defining the contractual obligations of the parties, the law also determines the consequences of breach and provides tools that maintain the performance of contractual obligations and compensate the aggrieved party for his loss when his contractual right is not performed.⁶⁹ When the breach occurs, it is important to select a tool that enables the aggrieved party to recover all the losses he incurred as a result of the breach. In this context, this thesis aims to assess whether the remedies provided by these two instruments provide sufficient protection to the buyer when there are third-party's IPR, as well as compare the two instruments to determine which of them succeeds better in this.

Whether the remedies are sufficient depends on if they succeed in protecting the buyer's objective when entering the contract. That objective is to obtain good title and undisturbed possession of the goods so that he can use them for his purposes. In the literature, this is usually referred to as a party's 'expectation interest' or 'fulfilment interest'.⁷⁰ Therefore, in the analysis

⁶⁸ See Robert Bradgate, *Commercial Law* (3rd Ed, Butterworths 2005) 272. Bradgate mentions that industrialisation causes the production of complex goods. Bradgate, 'Consumer Rights' (n 4).

⁶⁹ Barak Medina, 'Renegotiation, 'Efficient Breach' and Adjustment: The Choice of Remedy for Breach of Contract as a choice of a Contract-Modification Theory' in Nili Cohen and Ewan McKendrick (eds) *Comparative Remedies for Breach of Contract* (Hart 2005) 54.

⁷⁰ See Andrew Burrows, *Remedies for Torts and Breach of Contract* (3rd Ed, OUP 2004) 34-38; Lon L. Fuller and William R. Perdue, 'The Reliance Interest in Contract Damages: 1' (1936) 46 Yale LJ 52.

is employed in this thesis, a remedy is ‘sufficient’ if it protects the buyer’s expectation interest so understood and the legal instrument which does this more effectively is preferable to a legal instrument which does this less effectively.

The sufficiency of the protection cannot be determined solely upon the basis of the available remedial provisions, as it is also necessary to consider the losses that the buyer has suffered and the breached contractual obligations he has incurred. In addition to examining sufficiency, this thesis also examines the type of losses the buyer experiences as a result of third-party IPRs over the goods he purchased. It is important to examine the CISG and the SGA with a view to establishing if their remedial systems are a viable tool that enables the buyer to recover any losses that were suffered due to IP law remedies being applied by the third-party right holder.

In responding to incurred losses, the law should establish that the buyer’s remedies should cover all damages that result from the loss of profit, including incidental and consequential damages. In addition, remedies should also make it possible for the buyer to reclaim the fees and costs that he has expended, in his attempts to defend himself against the third-party. In instances where the third-party IPR holder applies for an injunction against the buyer, the buyer should be able to claim an injunction from the seller. In attempting to ensure that the buyer is protected sufficiently, the contractual remedies should attempt to remove any injunctions over the goods in question and should cover any losses that have arisen from these injunctions including deprivation of the goods over a period. This thesis works on the assumption that any remedies that assist the attainment of the aggrieved buyer’s expectations can be understood to provide a sufficient level of protection.

1.6.2. Comparing the CISG and the SGA

This thesis carries out a comparative legal analysis of the CISG and the SGA and specifically addresses the question of how their provisions that address third-party IPRs that extend over goods. Comparative analysis is generally defined as a way of bringing out the similarities and dissimilarities of two things, concepts or phenomena.⁷¹ Örucü provides a broader definition when she observes that ‘Comparative law is a science of knowledge with its own separate sphere; an independent science, producing theoretical distillate’.⁷² Although similarities or

⁷¹ H Patrick Glenn, ‘Com-paring’ in Esin Örucü and David Nelken (eds) *Comparative Law A Handbook* (Hart Publishing 2007) 90; Nils Jansen, ‘Comparative Law and Comparative Knowledge’ in Mathias Reimann and Reinhard Zimmermann (eds) *The Oxford Handbook of Comparative Law* (OUP 2006) 308; Jaakko Huso, ‘Research Designs of Comparative Law-Methodology or Heuristics?’ in Maurice Adams and Dirk Heirbaut (eds) *The Method and Culture of Comparative Law Essays in Honour of Mark Von Hoecke* (Hart 2014) 53.

⁷² Esin Örucü, ‘Developing Comparative Law’ in Örucü and Nelken (eds) (n 71) 43, 44.

differences can be explored through the comparison, this is not the sole purpose, as ‘what is actually there’ should also be observed.⁷³

A comparative methodology is suited to several aims of a legal study. Örucü lists various reasons for undertaking a comparative analysis, two of which directly relate to the purposes of this thesis. The comparative law method fosters legal reform by considering different systems along with their approaches to the same problem, and it can be deployed by judges when they issue interpretations.⁷⁴

Danneman offers a similar perspective by demonstrating how a comparison can be employed. He states:

believed that comparison can be employed to ‘establish whether different rules or institutions would reduce or eliminate the problem in question because of the different effects which these rules or institutions are likely to produce.’⁷⁵

This thesis compares the approaches that CISG and the SGA deploy when they seek to resolve third-party IPRs issues that relate to sold goods, with the intention of identifying the instruments that ‘eliminate the problem’ which is the seller’s liability when third-party IPR over the goods arise.

When conducting a comparative analysis, it is first necessary to select a suitable methodology, as this will define how the comparison will be undertaken. This thesis applies the functional method of comparative law, which has been accepted as a ‘fruitful’ method by its supporters.⁷⁶ This method seeks to understand the law by focusing on rules and their functions, in addition to the needs of society.⁷⁷ Michaels observes that because there is no single appropriate procedure or path in the application of a functional method, it can be used to build a system, critique a legal order, determine better laws and contribute to the presumption of similarity and *tertium comparationist*. In addition, it can be also be applied to understand and unify law.⁷⁸ A functional analysis will be conducted of the seller’s duty to deliver goods free from any third-party IPRs, and particular emphasis will be placed on the functioning of rules set under the CISG and the SGA. In seeking to ascertain if these instruments meet the needs of the buyer

⁷³ Örucü (n 72) 50.

⁷⁴ Ibid 53-55. The other reasons given by Örucü are: to help understanding the law in general, to make classification of legal systems, to broaden the law students’ minds, to develop international agreements and conventions, and to make harmonization.

⁷⁵ Gerhard Danneman, ‘Comparative Law: Study of Similarities or Differences?’ in Reimann and Zimmermann (eds) (n 71) 384, 404.

⁷⁶ Ralf Michaels, ‘The Functional Method of Comparative Law’ in Reimann and Zimmermann (eds) (n 71) 340; Jansen (n 71) 309, As to Jansen this method provides ‘easy answers as to which rule is superior.’

⁷⁷ Michaels (n 76) 343.

⁷⁸ Ibid.

and international trade, this thesis aims to establish a ‘better solution’ to the problem which the extent of the seller’s liability when third-party IPRs over the goods arises and restricts the buyer’s intended commercial activities.⁷⁹ A ‘better solution’ or ‘better law’ is proposed as the result of an evaluation process that describes, analyses, explains, evaluates and prescribes.⁸⁰

With regard to the things can be compared, it is first ascertained that there are “common elements which render judicial phenomena ‘meaningfully comparable’”.⁸¹ The liability and remedies that relate to cases where third-party IPRs over goods are the common element that underpins this study’s comparative analysis. However, this means that the comparability of the CISG and the SGA rules remains a question that needs to be answered. The comparison is conducted over the different legal systems which

[have] a vocabulary used to express concepts, its rules arranged into categories, it has techniques for expressing rules and interpreting them, it is linked to a view of the social order itself which determines the way in which the law is applied and shapes the very function of law in that society.⁸²

The CISG aligns with this definition and can, therefore, be defined as a ‘legal system’. Schmitthoff’s early writings acknowledge that international standard contracts as the results of a unification and harmonisation efforts gain further importance and the comparative method will be applied to them.⁸³

The CISG is a legal system, but it is also an instrument of international law. The comparative analysis can be undertaken on a horizontal or vertical basis. The former envisages a comparison of national laws, whereas the latter instead seeks to compare qualitatively different legal systems.⁸⁴ The comparison in between the CISG and the SGA is conducted on a vertical basis because the CISG is an international law instrument whereas the SGA is a national law. Picker discusses the implementation of the comparative law method as both a domestic and international law instrument,⁸⁵ and argues that comparative research that is applied to the CISG

⁷⁹ Jansen (n 71) 308; See Özücü (n 72) 49.

⁸⁰ Özücü (n 72) 49.

⁸¹ Esin Özücü, ‘Methodology of Comparative Law’ in Jan M Smits (eds) *Elgar Encyclopaedia of Comparative Law* (Edwar Elgar 2006) 442.

⁸² R David, JEC Brierley, *Major Legal Systems in the World Today* (3rd Ed, Stevens and Sons 1985) in Özücü and Nelken (eds) (n 71) 57.

⁸³ Clive M. Schmitthoff, ‘The Unification or Harmonisation of Law by Means of Standard Contracts and General Conditions’ (1968) 17 ICLQ 551; Rene Franz Henschel, ‘Creation of Rules in National and International Business Law: A Non-National, Analytical-Synthetic Comparative Method’ in Andersen and Schroeter, *Sharing International Commercial Law across National Boundaries* (n 24).

⁸⁴ Huso (n 71) 59.

⁸⁵ Colin B. Picker, ‘International Law’s Mixed Heritage: a Common/Civil Law Jurisdiction’ (2008) 41 Vand. J. Transnat’l L. 1083. See also Craig R Giesze, ‘Helms-Burton in Light of the Common law and Civil Law Legal Traditions: Is Legal Analysis Alone Sufficient to Settle Controversies Arising under International Law on the Eve of the Second Summit of the Americas?’ (1998) 32 The International Lawyer 51.

may help to enhance understanding of this legal instrument.⁸⁶ Also as previously discussed by Michaels and this thesis agrees with him that there is no single way to conduct a functional comparative analysis and therefore it allows for a possible comparison between the CISG and the SGA.⁸⁷ Accordingly, this thesis employs comparative analysis because ‘there is no standard methodology’ to analyse the seller’s liability for third-party IPRs over the goods, imposed by the CISG and the SGA.⁸⁸

When the comparative analysis is conducted, the objective is to bring out differences and similarities between the CISG and the SGA. As previously stated, the comparative analysis is undertaken to examine to what extent the seller is liable from the goods which are subject to third-party IPRs, and the remedies available to the aggrieved buyer under these legal instruments. The target of this analysis is to present what are the practical consequences stem from the application of either of these instruments. As a result of these consequences, it is aimed to reach an answer which instrument offers sufficient protection for the buyers when third-party IPRs over the goods arise.

In the literature, it is argued that the CISG contains vague language and brings uncertainty,⁸⁹ whereas the SGA provides greater clarity to as to the meaning and the scope of the terms through judicial interpretations.⁹⁰ Supporters of the CISG’s ratification by the UK believe that English law can assist in the development of the CISG jurisprudence, and provide clarity and certainty concerning the vague terms under the CISG through the English case law and academic literature.⁹¹ There is an opportunity of developing the CISG with English law; therefore, the comparative analysis is employed between their rules that are applicable to third-party IPRs problems. However, the analysis reveals that even the SGA carries some vagueness within the wording of s12, and the case law has not been removed this unclarity. Since three cases solved the problem raised by third-party IPRs in the light of s12, its applicability to these problems has not been explored in depth. It can be accepted that the vagueness within Article 42 and s12 arises due to the unfamiliarity of IP law and effects of IPRs to the sales when these

⁸⁶ Picker (n 85) 1089.

⁸⁷ This kind of study has previously been conducted. For example, VanDuzer (n 65). His work presents a comparison in between the CISG and the Canadian Sales of Law, Nevi Agapiou, ‘Buyer’s Remedies under the CISG and English Sales Law: A Comparative Analysis’ (PhD thesis, University of Leicester 2016).

⁸⁸ Öricü, ‘Developing Comparative Law’ (n 72) 48-49.

⁸⁹ Zhou (n 48) 669; Nathalie Hofmann, ‘Interpretation Rules and Good Faith as Obstacles to the UK’s Ratification of the CISG and to the Harmonization of Contract Law in Europe’ (2010) 22 *Pace Int’l L. Rev.* 145.

⁹⁰ Zhou (n 48) 677.

⁹¹ Andersen, ‘United Kingdom’ (n 52) 303; Goode (n 53); Alison E. Williams, ‘Forecasting the Potential Impact of the Vienna Sales Convention on International Sales Law in the United Kingdom’ in *Review of the Convention on Contracts for the International Sale of Goods 2000-2001* (Pace International Law Review, New York 2001) 11.

instruments were developed. Since the SGA was codified in 1979 and the CISG was adopted in 1980, the IPRs issues with effect to the sales law did not expand in depth at that time.

In the literature, the application of domestic laws to third-party IPRs cases instead of the CISG Article 42 is offered. Because most domestic laws contain similar solutions for third-party rights and claims; it is argued that these domestic solutions carry ‘a certain degree of uniformity.’⁹² Since the parties are free to opt out Article 42, claiming the application of domestic law brings more clarity is a remarkable argument which requires further examination. Therefore, the thesis attempts to answer whether the domestic law is the most suitable choice for third-party IPR cases by the comparison of the SGA. English law is highly preferred as applicable by the parties, and it is considered as serving the needs of international commerce,⁹³ analysis over its rules can assist to evaluate whether domestic laws are suitable for third-party IPRs issues. As a result of the comparison, it is revealed that IPRs over the goods sold still pose questions and bring unresolved issues even in a very sophisticated domestic legal system. Because there is a lack of reference to third-party IPRs in domestic law provisions, regardless of being a sophisticated system the problems can arise when dealing with IPRs.

The comparison between English SGA and the CISG not only helps to examine arguments over Article 42 but also contributes knowledge for the CISG contracting states whose sales laws are originated from English law. Eleven CISG member states are also part of the Commonwealth Countries.⁹⁴ When the sales laws of these countries are examined, it can be seen that Canada, Australia, New Zealand, Singapore, Guyana, and Uganda employ exactly the same rule for third-party IPRs with the English SGA (s12 of the SGA), and Ghana only contains the first subsection of s12 of English SGA.⁹⁵ Therefore, the comparative analysis in this thesis can be beneficial for these countries when they conduct research on the CISG and their sales law because English sales law is the main sales code that is familiar to or adopted by these eleven states.

The thesis also comparatively examines the buyer’s remedies available under the CISG and English law when the seller breaches his duty to deliver goods free from any third-party IPRs. The available remedies are of importance for the parties to decide upon the which instrument

⁹² Thomas M. Beline, ‘Legal Defect Protected by Article 42 of the CISG: A Wolf in Sheep’s Clothing’ (2007) 7 University of Pittsburgh Journal of Technology Law & Policy 1, 5.

⁹³ Zhou (n 48) 671-672; Bridge, ‘The UK Sale of Goods Act’ (n 48) 116.

⁹⁴ For the list of the Commonwealth Countries see <<http://thecommonwealth.org/member-countries>> accessed 17 November 2017. There are eleven countries which are Australia, Canada, Cyprus, Ghana, Guyana, Lesotho, New Zealand, Saint Vincent, Singapore, Uganda, Zambia both members of the CISG and the Commonwealth.

⁹⁵ See Australian Sale of Goods Act 1954 s17, Canadian Sale of Goods Act s13, New Zealand Sale of Goods Act s14, Singapore Sale of Goods Act s12. Unfortunately, it cannot be reached to sales laws of Lesotho, Cyprus, Zambia and Saint Vincent.

they will prefer as governing law of their contracts. The study will identify the practical consequences of the remedies under these legal instruments. The remedies are treated differently under common and civil law systems. The CISG seeks a compromise between civil law and common law approaches, and it prioritises the preservation of the contract and treats avoidance of the contract as the last resort.⁹⁶

On the other hand, English law specific performance is granted in exceptional circumstances, and termination and damages are employed at first instance. Most importantly the thesis determines the scope of and requirements for application of these remedial provisions to third-party IPRs issues and illustrates the similarities and differences of the CISG and the SGA. The examination of the remedies further inquiries whether the available remedies can assist to overcome any restriction imposed by IP law.

Although a comparative study may be beneficial in helping to acquire answers to the research questions, a number of challenges need to be overcome during this type of research. Before comparing the CISG and SGA, the nature of each instrument must first be understood. Jansen reiterates that in a comparative analysis, at first the ‘foreign phenomenon’ must be identified and understood, and second, comparisons must be drawn.⁹⁷ The CISG attempts to bring neutral solutions to the issues and refuses to refer to domestic laws because parties from both common and civil law systems apply the CISG in their contracts.⁹⁸ On the other hand, the English legal system remains under common law, and its legal principles, therefore, continue to be derived from court decisions that are given in accordance with usage and custom.⁹⁹ This distinction becomes clearer during doctrinal research. Regarding the common law approach undertaken in England, court decisions have a pivotal role to play in the analysis of the SGA. However, it should also be recognised that court decisions and arbitral awards are also influential in the application and understanding of the CISG rules. Commentaries and articles can also provide valuable insight.

⁹⁶ See Flechtner (n 64); Huber (n 64); See *Cobalt sulphate case* (n 64). The court states that ‘avoidance of contract is only supposed to be the [buyer]’s last resort to react to a breach of contract.’

⁹⁷ Jansen (n 71) 306.

⁹⁸ See Bernard Audit, ‘The Vienna Sales Convention and the Lex Mercatoria’ in Thomas E. Carbonneau (ed) *Lex Mercatoria and Arbitration* (Juris Publishing 1998) <<http://www.cisg.law.pace.edu/cisg/biblio/audit.html>> accessed 17 November 2017; Sieg Eiselen, ‘Adoption of the Vienna Convention for the International Sale of Goods (the CISG) in South Africa’ (1999) 116 *South African Law Journal* 323.

⁹⁹ Oona A. Hathaway, ‘Path Dependence in the Law: The Course and Pattern of Legal Change in a Common Law System’ (2000) 86 *Iowa L. Rev.* 601. See also Joseph Dainow, ‘The Civil Law and the Common Law: Some Points of Comparison’ (1966) 15 *The American Journal of Comparative Law* 419; Fernando Orrantia, ‘Conceptual differences between the civil law system and the common law system’ (Symposium: Doing Business in Mexico; The Legal Cultural and Practical Aspects) (1990) 19 *Southwestern University Law Review* 1161.

It is crucial to consider the divergent backgrounds and aims of the instruments when interpreting court decisions.¹⁰⁰ A doctrinal analysis of the two instruments should also acknowledge and engage the legal environment, and cultural contexts should be remembered. The legal environment is particularly important when interpreting the CISG – domestic reference points should be deliberately and consciously overlooked, and the international application of the CISG, along with its aspiration towards uniformity, should be foremost in the analyst’s mind.¹⁰¹

A comparative analysis of the CISG and the SGA may enhance understanding of the rules that relate to third-party IPRs within the context of sales law. It can assist the emergence of an analysis that is fully engaged with the expectations and needs of parties of a sales contract. The understanding that is gained through the comparative analysis will also assist the development of a more comprehensive examination of the remedies that should be available to the buyer.

1.7. Thesis Structure

This introductory chapter is followed by Chapter Two which deals with the relationship between IP and the sale of goods. In providing general background, it will specifically engage with IP law and potential third-party IPRs infringements. Chapter Three discusses third-party IPRs and claims that are advanced under the CISG and SGA. It will provide an analysis of Article 42 under the CISG and SGA s12, and this will be supplemented by a comparison of the CISG and SGA rules. In Chapter Four, remedies for third-party rights and claims will be examined. It also discusses the remedies the seller should provide for the buyer who suffers from third-party IPRs on the goods. Chapter Five concludes the discussion by bringing together insights developed in previous chapters.

¹⁰⁰ On the issue of interpretations see John Felemegas, *An International Approach to the United Nations Convention on Contracts for the International Sale of Goods (1980) as Uniform Sales Law* (CUP 2007); Martin Gebauer, ‘Uniform Law, General Principles and Autonomous Interpretation’ (2000) 5 *Unif. L. Rev.* 683; Ole Lando, ‘CISG and Its Followers: A Proposal to Adopt Some International Principles of Contract Law’ (2005) 53 *American Journal of Comparative Law* 379.

¹⁰¹ See Franco Ferrari, ‘Homeward Trend and Lex Forism Despite Uniform Sales Law’ (2009) 13 *Vindobona Journal of International Commercial Law & Arbitration* 15; Camilla Andersen, ‘The Global Jurisconsultorium of the CISG Revisited’ (2009) 13 *Vindobona Journal of International Commercial Law & Arbitration* 43.

CHAPTER TWO: Relationship between Intellectual Property Law and Sale of Goods

2.1. Introduction

Intellectual property (IP) denotes the term referring to the types of right which regulate the protection of certain intellectual activities.¹ IP law is concerned with intangible creations and intangible property,² while intellectual property rights (IPRs) are unconnected to the property rights over the tangible materials within which they are integrated.³ The different types of intellectual property are protected over intangible property, and with the acceleration of technological development has meant that the link between intangible property and the tangible medium to which they have attached has become apparent.⁴ There are increasing numbers of IP-related goods ranging from software products, computer, pharmaceuticals, clothing (textile and fashion industries), books and literary works, or even products carrying images of fictional characters or real persons. As a result of the high level of integration in between the goods and IPRs, the goods broadly used become subject of IP protection, and at the same time, IPRs can be open to infringements.

As part of the commercialisation of IP, trade of goods carrying IP have become established as vital elements of the economies.⁵ The sale of IP-related goods leads to a shift of attention which is solely focused on IP law towards the relationship between sales and IP law. It is important to consider the impact of IP-related goods over the sale of goods agreements, especially the

¹ William R. Cornish, 'The International Relations of Intellectual Property' (1993) 52 Cambridge Law Journal 46; Peter Drahos, *A Philosophy of Intellectual Property* (Aldershot 1996) 5; Alexandra George, *Constructing Intellectual Property* (CUP 2012) 32.

² See Michael Lehmann, 'The Theory of Property Rights and the Protection of Intellectual and Industrial Property' (1985) 16 IIC 52; Raymond T. Nimmer, 'Breaking Barriers: The Relation Between Contract and Intellectual Property Law' (1998) 13 Berkeley Tech. LJ 827; Mark A. Lemley, 'Property, Intellectual Property, and Free Riding' (2004) 83 Tex. L. Rev. 1031.

³ See Lionel Bently and Brad Sherman, *Intellectual Property Law* (4th Ed, OUP 2014) 2; Richard A. Epstein, 'The Basic Structure of Intellectual Property' in Rochelle Dreyfus and Justine Pila (eds) *The Oxford Handbook of Intellectual Property Law* (OUP 2017) 25, 35.

⁴ Brad Sharman and Lionel Bently, *The Making of Modern Intellectual Property Law the British Experience, 1760-1911* (CUP 1999) 47-50. See also Ian David McClure, 'Commoditizing Intellectual Property Rights: The Practicability of a Commercialized and Transparent International IPR Market and the Need for International Standards' (2008) 6 Buff. Intell. Prop. L. J. 13; Ian Eagles and Louise Longdin, *Refusals to Licence Intellectual Property: Testing the Limits of Law and Economics* (Hart Publishing 2011) 119.

⁵ See The Economics and Statistic Administration and The United States Patent and Trademark Office, 'Intellectual Property and the U.S. Economy: 2016 Update' available at <<https://www.uspto.gov/sites/default/files/documents/IPandtheUSEconomySept2016.pdf>> accessed 17 November 2017. It is stated that: '[t]otal merchandise exports of IP-intensive industries increased to \$842 billion in 2014 from \$775 billion in 2010.' Ian Hargraves, 'Digital Opportunity A Review of Intellectual Property and Growth' (May, 2011) <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32563/ipreview-finalreport.pdf> accessed 17 November 2017. It is stated that 'Global trade in patent and creative industry licences alone is now worth more than £600 billion a year, over five per cent of all world trade and rising.'

rights of the buyer. Because of the parties' expectations on the legal predictability and security over trade, the buyer's rights and the seller's liability needs to be ascertained mainly when a potential or actual IPR infringement arises as a consequence of the sale of these goods. Infringement of IPRs may arise by way of cross-border sales of either the goods subject to IPRs or the goods infringing in nature. In these situations, the buyer of such goods may be held responsible for these infringements and be subject to the remedies available to the IPRs holder, which include monetary damages or an injunction that seeks to prevent the continued commercial activities being conducted through with the goods in question.

This chapter aims to establish the relationship between IP law and sales law by illustrating the different types of IPRs infringements resulting from the sale of goods. A brief outline of IP law is presented instead of providing an in-depth analysis because the thesis focuses on the intersection of IP and sales law. Therefore, IP law is introduced to establishing a basis for further analysis of IPRs infringements and the seller's liability in accordance with sales law. Two issues will be addressed, first, in what circumstances a third-party IPRs can be infringed through the sale of goods, and second, whether the IP law doctrines, that can restrict the right holder's exclusive rights, have an impact on the risk of potential infringement claims.

When analysing these matters, along with the UK's IP regulations and cases, the chapter will also consider the IP cases raised in the US and relevant US legislation. Examination of the US cases is useful for illustrative purposes to show the various IP infringements by a sale of goods because this chapter predominantly focuses on demonstrating the risk of infringing third party IPRs by sales. This possibility is not restricted to one or specific territories but can arise globally. Taking this into account this chapter will consider where applicable US Law due to its leading position in the IP-related industries. According to WIPO's index, the US is one of the countries which makes significant numbers of patent applications, a prominent manufacturer of various IP-related goods.⁶ In light of this, it can be possible that a buyer in an international sales may infringe IPRs granted in the US.⁷ Additional, it is worth bearing in mind that the US is a member state of the CISG, this brief illustration of US IP law may also assist the CISG contractual parties who trade with US counterpart or take commercial activities in the US.

⁶ Global Innovation Index 2018 Energizing the World With Innovation (WIPO 2018) available at <http://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2018.pdf> accessed 15 November 2018; WIPO IP Facts and Figures (WIPO 2018) available at <http://www.wipo.int/edocs/pubdocs/en/wipo_pub_943_2017.pdf> 15 November 2018. Also see 'Intellectual Property and the U.S. Economy: 2016 Update' (n 5).

⁷ In a CISG case related to third party IPRs, even the parties are from Israel and Belgium, the infringed IPRs was registered in the US. *Eximin v Textile and Footwear Supreme Court of Israel* 22 August 1993 (PACE).

2.2. What is Intellectual Property?

It is widely accepted that IP law is an ‘umbrella term’ that covers copyright, patent, trademark, industrial designs alike.⁸ Every jurisdiction can determine the objects that are acknowledged to fall within the scope of IP law. The Convention on Establishing the World Intellectual Property Organization (WIPO) provides a list of what could be considered to fall within the scope of IP. It observes:

‘the rights relating to: literary, artistic and scientific works, performances of performing artists, phonograms, and broadcasts, inventions in all fields of human endeavor, scientific discoveries, industrial designs, trademarks, service marks, and commercial names and designations, protection against unfair competition, and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.’⁹

Despite this extensive list of IPRs, there is no exact definition of the term ‘intellectual property,’¹⁰ this is because of the creation of various new types of IP that have arisen as a result of technological developments. For example, computer programs are one of the foremost products of the modern technological era, and they are protected as ‘literary works’ by the World Copyright Treaty (WCT).¹¹ Functions of computer programs are established as ‘to communicate and work together with other components of a computer system and with users’,¹² so there is an interaction between computer hardware and software; consequently computer programs are widely dispersed within a wide range of goods including phones, coffee machines, cars and so on. In common with computer programs, a wide range of things is protected by IP law and attached to tangible goods. Although it should be noted that IPRs are intangible property rights which are separate from property rights in goods, so the existence of IPRs is beyond the tangible good.

IPRs grant exclusive rights over the protected subject matter to its right holders, therefore, the right holders have the power to prevent the others’ unauthorised conduct. Because these rights can be asserted against everybody, it is possible that the commercial activities, including using the goods subject to IP in the business or resale of these goods, can be hampered. The risk of being prevented from dealing with the purchased goods raises the question of whether the seller delivered the goods in accordance with the contract. In the first instance, the characteristics of

⁸ George (n 1) 32, Cornish (n 1) 46.

⁹ Article 2 (viii), See also Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) Article 1(2) defines that the intellectual property covers all categories under Sections 1 through 7 of Part II which are by namely, copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout-designs (topographies) of integrated circuits, undisclosed information.

¹⁰ See Bently and Sharman, *Intellectual Property Law* (n 3) 2.

¹¹ WCT Article 4.

¹² EU Software Directive 2009/24/EC (10).

IPRs need to be defined in order to highlight the problems that may arise in the context of the sale of goods.

IP law has evolved alongside the protected subject matter, with the consequence that, in the early stages of the emergence of IP law, (which Bently and Sherman define as ‘pre-modern’) ‘the mental or creative labour’ was regarded as the protected subject matter; at a later stage, the focus was shifted to object itself.¹³ Although this was the case, in the modern era, the focus is solely on the link between IP and physical objects.¹⁴ Eagles and Longdin note that ‘[t]he subject matter of intellectual property law may be intangible, but that law itself has always been heavily dependent on dealings in tangibles to set the parameters of infringement.’¹⁵ This means that even IPRs are intangible property, with the effects extending to the tangible goods into which they are integrated; thus the buyer of goods which subject to IPRs can be stopped from undertaking certain acts that relate to the goods as a whole.

Sony Computer Entertainment Inc. v Ball is an example of the IPRs attached to only a small proportion of the goods, which nevertheless affects the enjoyment of the entire goods.¹⁶ Sony’s copyright had been infringed by Ball’s involvement in the manufacture, sale and installation of the device called Messiah2, which circumvented Sony’s copy protection system by enabling the playing of unauthorised copies and imported games on the PlayStation 2 console. Ball claimed that because RAM contains a copy of Sony’s data transiently, it does not constitute ‘an article’ of infringing copyright within the meaning of the Act.¹⁷ Laddie J rejected the claim and stated that ‘even making a transient copy of a work can constitute making a reproduction “in a material form”. Thus RAM containing a copy of Sony’s copyright work is a reproduction in material form.’¹⁸ Furthermore, he also dismissed other claim raised by Ball who argued that as the copy protection is applied to ‘hardware’, the legislation does not cover these.¹⁹ Laddie J explained that there is no distinction between the application of the protective device to hardware or software in the legislation.²⁰

This case demonstrates the relationship between intangible and tangible objects in terms of copyright protection. The copyrighted work was applied to hardware devices which is tangible,

¹³ Sharman and Bently, *The Making* (n 4) 4, 47; Neil MacCormick, ‘On the very idea of intellectual property: an essay according to the institutionalist theory of law’ (2002) 3 I.P.Q. 227.

¹⁴ Sharman and Bently, *The Making* (n 4) 47-50.

¹⁵ Eagles and Longdin (n 4) 119.

¹⁶ *Kabushiki Kaisha Sony Computer Entertainment Inc and others v Ball and others* [2004] EWHC 1738 (Ch).

¹⁷ *Ibid* at [15]. He stated that ‘The fact that it did not contain the copy before and will not contain the copy later does not alter its physical characteristics while it does contain a copy.’

¹⁸ *Ibid* (n 16) at [17].

¹⁹ *Ibid* at [42].

²⁰ *Sony v. Ball* (n 16) at [43].

whereas the work that device contains is intangible property, and infringing the function of this device prevents Ball from dealing with the PlayStation as a whole. As a consequence of infringement, the right holder has the rights to order delivery up or seizure of infringing articles,²¹ which affects the enjoyment of the whole goods.

It can be concluded from the case that the IPRs over the software are protected and that in this technological era, it is highly possible for the dealers of such goods which have software components can potentially be subject IP infringement claims. Also, the acknowledged relationship between the tangible property which subject to intangible IPR highlights this thesis's consideration that the IPRs have an impact on the goods to which they attached, and can prevent the buyer undertaking any commercial activities related to these goods in the case an infringement occurs.

Because IP relates to the intangible things, its 'property' nature has attracted debate. The property status of IP law and intangibles are of importance for the foundation of this thesis. In seeking to demonstrate how IPRs impact upon the sold goods and provide solutions for the buyer, this thesis aims to ascertain whether the IPRs have monopolistic characteristics that are similar to property, which in turn affects the enjoyment of quiet possession.

The differences between IP and property rights are outlined in four ways according to which IP granted, such as incentives to create and invent, the need of production, and this production mainly depends upon the intermediaries and the 'persuasive use of licences to structure the relationships.'²² Cohen criticises the current understanding of property based on that the IP does not always fit into the property law doctrines, and suggests tailor-made regulations which can be applied to the property over intangibles.²³ If IP law is separated from the property concept, providing justifications for the right owners' exclusive rights and the right to exclude others' unauthorised conduct will be a problem, Cohen believes the exclusivity in terms of property does not become thoroughly applicable to IPRs.²⁴ Regarding the remedies that are available when there is an infringement, property lawyers support that property rules should be applied to protect the property instead of liability rule that obliges to pay damages.²⁵ Cohen questions the suitability of property rules (under which injunctive relief is first resort) to all

²¹ UK Copyright, Designs and Patent Act 1988 (CPDA) s296ZD.

²² E. Cohen, 'What Kind of Property is Intellectual Property?' (2014) 52 Hous. L. Rev. 691; Sharman and Bently, *The Making* (n 4) 24.

²³ Cohen (n 22) 699.

²⁴ *Ibid.* 699-700.

²⁵ Louis Kaplow and Steven Shavell, 'Property Rules Versus Liability Rules: An Economic Analysis' (1995) 109 Harv. L. Rev. 713.

kinds of uses.²⁶ However, when the liability rules are followed, if the damages are lower than the harm, ‘victims will bribe the injurers to desist whenever that is efficient.’²⁷ Regarding this possibility, it would be challenging for an IPR owner to protect his rights; even he could manage to protect this would be costly. Therefore, contrary to Cohen, in my view, acknowledging this law branch as a special type of ‘property’ can be supportable instead of creating completely different legal institutions for IPRs.

Lemley similarly argues that the employment of the ‘property label’ is misleading,²⁸ because the economic analysis of property law does not support protecting the ‘full social value’ of the right.²⁹ While property law does not enable the right holders to ‘control social value’, IPRs owners are overcompensated by allowing them to stop free-riding to able them to cover the costs which they spent during the creation process.³⁰ However, Epstein points out the duration for obtaining these incentives are fixed, by the expiration of duration, the social gains due to ‘nonrivalrous use of’ the protected subjects is extensive.³¹ Also, it should be considered that when the duration for the exclusive use of the right is expired, economic benefits acquired by controlling free-riding, which are regarded as an overcompensation, also comes an end. Similar to the fixed duration, under the doctrine of exhaustion, the rights holders do not enjoy exclusive control over the goods subject to IP nor do they continue to receive royalties after the authorised first sale of these goods.³² IP law aims to create a balance between the public that needs to use the protected subject work and the incentive feature of IP by doctrine of exhaustion, allowing the right holder to use his exclusive rights at the first sale, therefore, ‘should be sufficient to ensure that there is a financial incentive to invest in the creative process.’³³

Although most authors have acknowledged the distinctive features of property and IP, however, the similarities that they share cannot be easily ignored. Regarding the fixed time for receiving incentives and the exhaustion doctrine, IP law does not depart from property law. The proponents of property nature of IP base their view on the exclusivity of IPRs similar to

²⁶ Cohen (n 22) 700.

²⁷ Louis Kaplow and Steven Shavell, ‘Do Liability Rules Facilitate Bargaining? A Reply to Ayres and Talley’ (1995) 105 *The Yale Law Journal* 221, 223.

²⁸ Lemley (n 2) 1071.

²⁹ *Ibid.*

³⁰ *Ibid.*

³¹ Richard A. Epstein, ‘The Disintegration of Intellectual Property-A Classical Liberal Response to a Premature Obituary’ (2009) 62 *Stan. L. Rev.* 455, 482-483.

³² Margreth Barrett, ‘The United States’ Doctrine of Exhaustion: Parallel Imports of Patented Goods’ (2000) 27 *N. Ky. L. Rev.* 911.

³³ *Ibid.* 913.

property, particularly the owner's right to control the use of it, and the transferability of the rights.³⁴

2.2.1. Types of IPRs

There are different types of IPRs, each one focuses on and protects different subject matter. This section provides a brief outline of patents, copyright and trademarks which are predominating the IP law field.³⁵

A patent is granted for the protection of inventions for a limited time which is generally 20 years. Every jurisdiction decides upon the patentable subject matters, according to Article 27(1) of The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the minimum standards for the patentability includes as 'any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application.'³⁶ Granting of a patent is not solely depend upon carrying such requirements, there is also an application process after which the patent comes into existence.³⁷

The subject matter of copyright law is a 'work' which displays originality and individuality and emerges as a result of the author's intellectual efforts.³⁸ Protected works under copyright law include 'literary and artistic works', and 'performances, phonograms, broadcasts, databases, and other productions.'³⁹ Generally, the protection is provided for intellectual creations, and not for ideas.⁴⁰ In contrast to patents, there are no formalities for registration or application, since the copyright protection begins with the creation of the work. The duration of protection and the calculation of the period differs according to the type of works protected. Regarding literary and artistic works the minimum term of protection is determined as 50 years

³⁴ Robert P. Merges, 'What Kind of Rights Are Intellectual Property Rights?' in Dreyfus and Justine Pila (eds) (n 3) 57; Henry E. Smith, 'Intellectual Property as Property: Delineating Entitlements in Information' (2007) *The Yale Law Journal* 1742; Frank H. Easterbrook, 'Intellectual Property Is Still Property' (1990) 13 *Harvard Journal of Law and Public Policy* 108–118 at 113 and 118.

³⁵ Cornish (n 1) 49.

³⁶ Article 52(1) of the European Patent Convention (EPC) also reflects the same approach as the TRIPS by stating that 'European patents shall be granted for any inventions, in all fields of technology, provided that they are new, involve an inventive step and are susceptible of industrial application.' According to UK Patent Act 1977 Article (1), the patent can be granted.

³⁷ See further Dan L. Burk, 'Patents and Related Rights: A Global Kaleidoscope' in Dreyfus and Pila (eds) (n 3) 461; *Terrel on the Law of Patents* (18th Ed, Sweet & Maxwell 2018).

³⁸ Delia Lipszyc, *Copyright and Neighbouring Rights* (UNESCO Publishing 1999) 69; **Bently and Sherman, *Intellectual Property Law*** (n 3) 31.

³⁹ See Berne Convention.

⁴⁰ See TRIPs Article 9(2) 'Copyright protection shall extend to expressions and not to ideas, procedures, and methods of operation or mathematical concepts as such.' WCT Article 2 'expressions, not to ideas, procedures, methods of operation or mathematical concepts as such.'

after the death of the author by Berne Convention,⁴¹ whereas in many national laws the minimum term is 70 years after the death of the author.⁴² However, there are exceptions to this duration for the protection.⁴³ For the computer-generated works, the period is defined as 50 years from the end of the year when the work was made.⁴⁴

The rights guaranteed by copyright law are divided into two main categories: economic and moral rights. Economic rights include the right of reproduction, the right of communication, the right to control physical copies, and technological rights.⁴⁵ Moral rights are independent from the author's economic rights; they protect the author's intellectual and artistic interests.⁴⁶ These moral rights include the rights of attribution, integrity, divulgation and retraction.⁴⁷

Trademarks are used as a tool for distinguishing goods or services from those of others, thereby protecting both consumers and the owners of the trademark by guaranteeing the origin and quality of these goods and services.⁴⁸ Trademarks are treated as property, but it has been argued that this does not, in comparison with copyright, design or patent rights 'give exclusive control over the sale of particular goods or services', instead enables 'control over the use of sign' related to the goods or services.⁴⁹ Although trademark registration is seen as supplementary, unregistered trademarks are also available.⁵⁰ These different types of IPRs and its nature of being registered or unregistered will play a significant role when determining the seller's liability for third-party IPRs over the goods exists.⁵¹

⁴¹ See Berne Convention Article 7(1).

⁴² See EU Directive 2011/77/EU amending Directive 2006/116/EC on the term of protection of copyright and certain related rights; UK Copyright, Designs and Patent Act 1988 (CDPA) s12, See Copyright Turkey Law No. 5846 on Intellectual and Artistic Works Article 27.

⁴³ Bently and Sherman, *Intellectual Property Law* (n 3)181.

⁴⁴ See CPDA s12(7).

⁴⁵ See Berne Convention Article 8(translation), 9 (reproduction), 11(public performance and communication), 11^{bis} (broadcast, rebroadcast), 11^{ter} (public recitation of works).

⁴⁶ Silke von Lewinski, *International Copyright Law and Policy* (OUP 2018) 50. See also Lipszyc (n 38) 158-179.

⁴⁷ Berne Convention Article 6^{bis}, These rights are independent from the economic rights, so a transfer of economic rights does not affect author's moral rights.

⁴⁸ Mohammed Amin Naser, *Revisiting the Philosophical Foundations of Trademarks in the US and UK* (Cambridge Scholar Publishing 2009) 61; Dev Gangjee, 'Trade Marks and Allied Rights' in Dreyfus and Pila (eds) (n 3) 517.

⁴⁹ See Bently and Sherman, *Intellectual Property Law* (n 3) 813; Lionel Bently, 'From Communication to Thing: Historical Aspects of the Conceptualization of Trade Marks as Property' in GB Dinwoodie and MD Janis (eds) *Trade Mark Law and Theory: A Handbook of Contemporary Research* (Edward Elgar 2008) 1. Cf. see Glynn Lunney, 'Trademark Monopolies' (1999) 48 Emory L.J. 367; P. Sean Morris, 'The Economics of Distinctiveness: The Road to Monopolization in Trade Mark Law' (2011) 33 Loy. L.A. Int'l & Comp. L. Rev. 321.

⁵⁰ See Sir Duncan Mackenzie Kerly, *Kerly's law of Trade Marks and Trade names* (16th Ed, Sweet & Maxwell 2017) 15-062; Robert Burrell and Michael Handler, 'The Intersection Between Registered and Unregistered Trade Marks' (2007) 35 Fed. L. Rev. 375.

⁵¹ See '3.2.2.2./2. Seller's Knowledge'.

2.2.2. The Scope of IPRs

The IPRs are territorial in nature, and this means that the IPRs are protected in accordance with the jurisdiction where they have been granted.⁵² As a result of its territoriality, a subject matter can be protected by IP law in one country; however, the same subject matter may not be registered or accepted as IP in another country. It is also possible that the same subject matter may be granted to different persons in various countries. Every jurisdiction where IPRs are granted defines infringing activities and provides IPRs protection within their territories.⁵³ The infringing activities should occur within the respective territory. Therefore, ‘the foreign rights cannot be infringed by local activity, and local rights cannot be infringed by foreign activity.’⁵⁴

On the other hand, there has also been an increase in activities that relate to the IP in the cross-border context. Through the development and growth of cross-border sales, the extra-territorial application of IP law, which entails the application of the law of a jurisdiction to activities that occur outside this jurisdiction,⁵⁵ becomes a factor to be taken into consideration. In a globalised world, IP-protected subjects can be found around the world, and are not restricted to the territories where they have been protected.⁵⁶ The question of whether territorial IP laws reach, and can be applied to, activities that arise beyond national borders therefore arises.

The territoriality of IP law hinders the right holders’ ability to litigate their IPRs wherever infringing activities occur, thus, currently the IPRs can only be enforced in the territory where it was obtained or in multiple territories if the IPRs are granted each territory.⁵⁷ Nevertheless, the enforcement of IPRs in the jurisdictions where it was infringed has been criticised because it gives rise to high costs and inconsistent and unpredictable court judgments.⁵⁸ Two solutions have been proposed in an effort to overcome these problems. It has been suggested to adjust private international rules (PIL) in the expectation that this will ease the application of cross-border features by existing national courts.⁵⁹ The creation of multinational courts has also been

⁵² Bently and Sherman, *Intellectual Property Law* (n 3) 5; Alexander Peukert, ‘Territoriality and Extraterritoriality in Intellectual Property Law’ in Günther Handl, Joachim Zekoll & Peer Zumbansen (eds), *Beyond Territoriality: Transnational Legal Authority in an Age of Globalization*, *Queen Mary Studies in International Law* (Brill Academic Publishing 2012) 189.

⁵³ Sophie Neumann, ‘Intellectual Property Rights Infringements in European Private International Law: Meeting The Requirements of Territoriality and Private International Law’ (2011) 7 *Journal of Private International Law* 583, 589.

⁵⁴ Peukert (n 52) 195.

⁵⁵ *Ibid* 202. See also Marketa Trimble, ‘Advancing National Intellectual Property Policies in a Transnational Context’ (2015) 74 *Md. L. Rev.* 203; Timothy R Holbrook, ‘Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad’ (2004) 37 *U.C. Davis L. Rev.* 701.

⁵⁶ Peukert (n 52) 196; Trimble (n 55).

⁵⁷ Marketa Trimble, *Global Patents: Limits of Transitional Enforcement* (OUP 2012) 40.

⁵⁸ *Ibid*; Ana Alba Betancourt, ‘Cross-Border Patent Disputes: Unified Patent Court or International Commercial Arbitration’ (2016) 32 *Utrecht J. Int'l & Eur. L.* 44.

⁵⁹ Neumann (n 53) 589.

suggested.⁶⁰ PIL determines the jurisdiction, applicable law along with the recognition and enforcement of judgments. There are efforts to harmonise the rules of PIL, so within Europe, the Brussels I Regulation,⁶¹ and Rome II Regulation;⁶² in the multilateral level the Hague Conference on Private International Law targets to maintain harmonisation.⁶³

In addition to these efforts to harmonise PIL rules, a number of multilateral and international agreements that relate to the protection and enforcement of IPRs have also come into force.⁶⁴ International agreements do provide guiding principles such as minimum standards that apply within member states jurisdictions and requires national treatments by which a signatory country of IP treaties grants to nationals of other member states the same treatment provided to its own nationals.⁶⁵ Despite these various agreements and the principles enforced by them, there has been no attempt to create a uniform body of IP law. Also, the European Union (EU) has attempted to harmonise IP law through multiple frameworks of legislation and interpretative judgments of the Court of Justice of the European Union (CJEU). It has sought to establish workable unitary IP protection that prevents discrepancies resulting from different IP regulations amongst member states and allowing for free movement of goods and services between member states. These different regulatory levels, whether international or supranational, oblige signatory states to extend the same protection to citizens of other signatories as they provide to their own nationals.⁶⁶

Both territorial and extraterritorial activities are prescribed as causes of the infringement. With regard to this, whether IPRs will be infringed by the sale of goods which are subject to IPRs is questioned. There is a possibility that infringement will occur in cases when goods that are

⁶⁰ Trimble, *Global Patents* (n 57).

⁶¹ Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast) [2012] OJ L351/1.

⁶² Regulation (EC) No 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations [2007] OJ L199. See Neumann (n 53).

⁶³ See Eun-Joo Min and Johannes Christian Wichard, 'Cross-Border Intellectual Property Enforcement' in Dreyfus and Pila (eds) (n 3) 687.

⁶⁴ The first attempts at providing rules for IPRs on an international basis were made by the Paris Convention for the Protection of Industrial Property in 1883 and the Berne Convention for the Protection of Literary and Artistic Works in 1886. These aimed to provide equal protection to all member states. In 1974, the World Intellectual Property Organization (WIPO) was established and this has contributed to international IPRs. The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) was signed in 1994. It applies to all members of the World Trade Organization (WTO).

⁶⁵ See Sam Ricketson, 'The Emergence and Development of the Intellectual Property System' in Dreyfus and Pila (eds) (n 3) 198; Ulrich Loewenheim, 'The Principle of National Treatment in the International Conventions Protecting Intellectual Property' in Wolrad Prinz zu Waldeck und Pyrmont and others (eds) *Patents and Technological Progress in a Globalized World Liber Amicorum Joseph Straus* (Springer 2009) 593.

⁶⁶ See Jerome H. Reichman, 'Universal Minimum Standards of Intellectual Property Protection under the TRIPS Component of the WTO agreement' (1995) 29 *Int'l L.* 345; Bentley/Sherman, *Intellectual Property Law* (n 3). They generally cover subjects related with to requirements for registering as a type of IPR, the rights that are available for the IPRs holder, and the person who infringes IPRs.

subject to IPRs are sold in the country where the respective IPRs are protected. An infringement also occurs when infringing activities related to the protected IPRs occur outside of the country where the IPRs were granted. Considering these situations that infringement can occur, it is my view that territoriality should not be considered as a strong tool for avoiding the infringement of third-party IPRs.

Taking the extraterritorial activities and cross-border enforcement of IP into account, it is open to question what applies when an infringing activity occurs outside the country of protection, but the sale of such infringing goods takes place in the country of protection? Whether the country of sale has no effect for infringement claims? Similar considerations are raised under 35 USC §271 which accepts an offer for sale within the US as an infringement of a patent by its relevant subsections.⁶⁷ The question of ‘whether these provisions forbid: (1) an offer to sell a patented invention in the United States; or (2) an offer, in the United States, to sell a patented invention’ needs to be answered in order to reach a conclusion.⁶⁸ In *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, the court ruled that ‘the focus should not be on the location of the offer, but rather the location of the future sale that would occur pursuant to the offer.’⁶⁹ An offer should, therefore, be made for the actual sale that would occur in the USA. Taking this into account, if a trader targets a market to supply the patented products where protection is offered, he is held to be liable for infringement irrespective of the location of the trader or offer. Similar provisions apply in different jurisdictions that affect the risk that third-parties’ IPRs may be infringed third-parties through the international sale of goods.

2.3. IPRs Infringement and the Sale of Goods

Based on the territoriality principle, the IP law of each jurisdiction determines the conditions under which an IPR is infringed. Generally, the acts which can breach the exclusive rights of IPRs holders examples including making, using, offering for sale, selling, or importing for these purposes a protected invention, work, sign or, etc. without the IPRs holders’ consent constitute infringement. In relation to sales, transfer of IP-related goods from person to person, or from a territory to another triggers IPRs infringements; consequently, the buyer of the goods becomes the addressee of these infringement claims regardless of the buyer’s knowledge or intention to infringe. This situation occurs because the buyer, contrary to the authorisation of

⁶⁷ The US Law is presented in this chapter regarding that the US is a member states of the CISG and which plays a major role in intellectual property arena. Thus, it is beneficial to illustrate its law for the CISG parties.

⁶⁸ *Quality Tubing, Inc v Precision Tube Holdings Corp.* 75 F. Supp. 2d 613, 614.

⁶⁹ 617 F.3d 1296, 1309 (Fed. Cir. 2010).

the right holder, uses the products for commercial activities, or imports and resells them. The problem is not only that the buyer is a target for infringement claims, hence initiation of a lawsuit, but also that the IPR right holder's available remedies, including which prohibit the buyer's use or resale of the related goods.

This problem of preventing the sale of the goods which cause infringement by way of injunctions existed in *HTC Corporation v Nokia Corporation*.⁷⁰ Nokia claimed that HTC infringed its patent for the 'modulator structure for a transmitter and a mobile station' in certain phones. HTC acquired these chips, which were attached to its phones, from the manufacturers Broadcom and Qualcomm. HTC defended itself arguing that Nokia agreed not to sue Qualcomm for patent infringement. Arnold J highlighted the distinction between the sale of a product and a license under a patent. In the former situation, 'the purchaser acquired all rights that were not expressly reserved'; and in the latter situation 'the licensee acquired only those rights which were expressly or necessarily granted.'⁷¹ It was held that: 'a licence only confers such rights on the licensee as, on the true construction of the relevant document, the parties agreed. If the licensee has no right to sell in the UK, then a purchaser from the licensee cannot be in a better position.'⁷² Therefore, the court held that there had been an infringement of Nokia's patent.

The significance of this case is not only based on the court's consideration of the rights of a licence and its effect on the buyer, but also on the fact that an injunction was granted, and the sale of the infringing mobile phone was banned within the UK.⁷³ Although Patten J lifted the ban on appeal,⁷⁴ there remains the risk that an injunction can be granted, which limits the commercial activity of the buyer of the infringing goods.⁷⁵ This relationship between sales and IPRs raises questions concerning the rights of purchasers. The effects of injunctions and IP protections on the commercial activities of the buyer and the seller require further consideration.⁷⁶

⁷⁰ [2013] EWCH 3247 (Pat).

⁷¹ *Ibid* at 163.

⁷² *Ibid* at 166. This is even clearer if one considers the wording of Article 25 CPC which provides that a patent "shall confer on its proprietor the right to prevent all third-parties not having his consent" from doing things.

⁷³ *HTC v Nokia* [2013] EWHC 3778 (Pat), Sophie Curtis, 'HTC One Mini Banned in UK following Nokia Patent Victory' The Telegraph 3 December 2013 <<http://www.telegraph.co.uk/technology/htc/10491635/HTC-One-Mini-banned-in-UK-following-Nokia-patent-victory.html>> accessed 12 November 2017.

⁷⁴ *HTC v Nokia* [2013] EWCA Civ 1759.

⁷⁵ See *BASF SE v Sipcam (UK) Ltd* [2013] EWHC 2863 (Pat). The court granted an interim injunction and Sipcam was restrained from selling herbicide in the UK on the ground of infringement of BASF's patent.

⁷⁶ See Sean Thomas, 'Sale of Goods and Intellectual Property: Problems with Ownership' (2014) 96 Intellectual Property Forum 25. See 'Chapter 4' which presents the effects of injunctions to the buyer.

Similar cases that create problematic results for the buyer raise additional issues for consideration, for example, what rights can be asserted to the seller when the buyer purchases the goods and these infringe third-party's IPRs, and what is the seller's liability to his buyer from these goods. These questions will be addressed directly in the next chapter. At this stage, it is important to identify the problems that may occur from purchasing goods which infringe the third-parties' IPRs, and the possible ways in which IPRs can be infringed are set out below.

The law establishes what amounts to infringing acts of IPRs and classifies these acts according to being primary or secondary infringement. The former covers the acts that directly infringe the protected work or product such as making, copying, using, distributing and like, whereas the latter focuses upon the acts of dealing with infringing copies.⁷⁷ Hence, not only the person who directly infringes the exclusive rights of the right holder but also the person who deals with the infringing goods will be held liable. In the following sections, various examples of infringements are illustrated to establish possible ways that a buyer encounters IPRs infringements, rather than an exclusive analysis of each type of IPR and their infringement.

2.3.1. Primary Infringement

2.3.1.1. Make/Use

A patent owner has a right to exclude others from making the patented product or using the patented process without his consent.⁷⁸ Regarding this, in the sale of goods context, the buyer can commit IPRs infringement where the buyer purchases goods not protected by patent and then uses them to go and make a patented product. While it is established that the manufacturing of the final patented product can amount to an infringement, recent case law has confirmed that the mere manufacture of the kit to make up the final product without final assembly can be an infringement.⁷⁹

In *Virgin Atlantic Airways Ltd v Delta Air Lines Inc.*,⁸⁰ the issue was related to a patented aircraft seating system which was manufactured by Contour and sold as kits to the Delta. It was held that the dealings of complete kit parts in the UK for the purpose of assembling the final patented product 'will almost inevitably infringe pursuant to section 60(2)/Article 26 [EPC]' without any need for the establishment of infringement according to s60(1)(a).⁸¹ In

⁷⁷ WA Copinger WA, EP James Skone James EP, *Copinger and Skone James on Copyright* (16th Ed, Sweet Maxwell 2012) 8-01.

⁷⁸ See TRIPS Article 28(1)(a), UK Patent Act 1977 s60(1)(a), 35 USC §271(a).

⁷⁹ Rainer Moufang, 'The Extraterritorial Reach of Patent Law' in Wolrad Prinz zu Waldeck und Pyrmont and others (eds) (n 65) 601, 606.

⁸⁰ [2010] EWHC 3094 (Pat).

⁸¹ *Ibid* at [131].

taking extraterritoriality into account, Arnold J clearly distinguishes between the complete and incomplete kit of parts. If it is a complete kit of parts, assembling it outside the UK is an infringement.⁸² However, the dealing in incomplete kit parts within the UK, but assembly outside is not an infringement, because the buyer of these kits acquires the missing parts from elsewhere.⁸³ Considering that Contour only supplied the seating kits that could be assembled to the aircraft and the Delta had been obtained the aircraft from elsewhere and assembled them outside the UK, it was held that the Contour was not an infringer and, by extended implication, Delta was not a joint-infringer.⁸⁴ However, the decision was set aside on appeal.⁸⁵ The problem was on the specifications of the patent, and the Court explained that the wording ‘system for an aircraft’ in the specifications should be understood as it means ‘suitable for’.⁸⁶ Jacob LJ highlighted that ‘[t]he claim is not limited to a ship-set fitted into an aircraft. It covers a system capable of being so fitted.’⁸⁷ Therefore, the judge held that the skilled reader would understand the specification in that regard and similarly, third-parties ‘know what they can and cannot do.’⁸⁸ As a consequence, the court held there was an infringement instead.

Based on the judgment given by the court, it can be observed that if the manufacturing process is undertaken in the country of protection, the manufacturer is, irrespective of whether or not the kits have been assembled in abroad, liable for the infringement. Nevertheless, the buyer of these kits can only be liable when he assembles them in the country of protection. In the *Virgin* case, had Delta fitted the seats in one of the countries where Virgin sought patent protection, there would be a direct infringement. Alternatively, if Delta were an UK-based company that had bought the kits from a manufacturer to resell them to be assembled outside the UK, a liability for patent infringement would arise as a result of goods being sold.

2.3.1.2. Sale and Offer for Sale

The sale or offer for sale of either authorised goods within territories not covered by the licence agreement (the *HTC* case),⁸⁹ or unauthorised manufactured goods, can amount to an infringement.⁹⁰ Goods manufactured abroad can infringe an IPR where the goods are sold or offered to be sold. For example, the dealing of a product that is the result of a patented process

⁸² *Virgin Atlantic* (n 80). Under s60(1) of Patent Act 1977, making, disposing of, offering to dispose of, using or importing the product within the UK and by 60(2) supplying or offering to supply ‘relating an essential element of the invention, [...] for putting the invention into effect in the UK’ constitute infringement.

⁸³ *Ibid* at 135.

⁸⁴ *Ibid* at 136.

⁸⁵ [2011] EWCA Civ 162.

⁸⁶ *Ibid* at [24].

⁸⁷ *Ibid* at [15].

⁸⁸ *Ibid* at [34].

⁸⁹ *HTC v Nokia* (n 70).

⁹⁰ See TRIPS Article 28(1), UK Patent Act 1977 s60(1), 35 USC §271.

which is performed abroad can fall within this scope. According to US law, especially 35 USC §271(g), clearly establishes that dealing with products which are produced outside the USA is an infringement, although the general rule for infringement of patented process is performing all the necessary steps within the country of protection.⁹¹ Given that, the buyer of such goods will face with infringement claims if he sells or offers for sale within the territory where the products are protected.

On a similar account, copyright law acknowledges that issuing the original or copies of the work to the public contrary to the consent of the holder is an infringement.⁹² Therefore, even the buyer purchases the original copy of a work, his unauthorised dealings of the works can be infringing. In *Direct Sales Srl v Knoll International SpA*,⁹³ the issue related to the distribution right, where there was an unauthorised offer for sale. The conflict arose between two Italian companies. Knoll's exclusive right to distribute the designer furniture in Germany was infringed by Dimensione when its website offered items for sale that specifically targeted German customers. The court referred to the judgment in *Peek & Cloppenburg*,⁹⁴ where it observed that 'the concept of distribution to the public, otherwise than through sale, [...] covers [...] acts which entail a transfer of ownership' is covered by the distribution to the public,⁹⁵ the court in *Direct Sales* held that an infringement occurred 'where consumers located in the territory of the Member State in which that work is protected are invited, by targeted advertising, to acquire ownership of the original or a copy of that work'.⁹⁶

This case establishes that an unauthorised sale and an offer for sale (irrespective of if it amounts to actual sale) are included in the infringing acts. It also demonstrates that the trader does not need to be in the country where the offer is made, because the distance dealing by the website also produces the same result. In the context of an international sale, when the buyer actually puts the goods in the protected market or makes an actual contractual offer with another company with the intention of distributing in the country of protection, or the mere offer for sale via the internet will be sufficient to infringe the copyrighted work.

⁹¹ Holbrook (n 55) 721, Timothy R. Holbrook, 'Liability for the "Threat of a Sale": Assessing Patent Infringement for Offering to Sell an Invention and Implications for the On-Sale Patentability Bar and Other Forms of Infringement' (2003) 43 Santa Clara L. Rev. 751.

⁹² See CPDA 1988 s.18, 17 US Code §106(3).

⁹³ Case C-516/13 [2015] ECDR 12.

⁹⁴ C-456/06 *Peek & Cloppenburg v Cassina SpA* [2009] ECDR 9.

⁹⁵ *Ibid* at [36].

⁹⁶ *Direct Sales* (n 93) at 33.

2.3.1.3. Import or Export

The patentee has an exclusive right to prevent importation of the patented goods.⁹⁷ This right was highlighted in the US case *Suprema, Inc v Int'l Trade Comm'n*,⁹⁸ where it was stated that 'there are no "articles that infringe" at the time of importation when direct infringement does not occur until after importation'.⁹⁹ Consequently, if a buyer purchases patented goods that are produced in accordance with the right holder's authorisation, however, he imports these goods to where they are protected without the patentee's consent, the patent is infringed. A trader who makes a cross-border transaction should bear this limitation in mind. Even if the buyer purchases authorised goods, their importation can result in infringement.

In addition to this, the importation of goods that are manufactured by a patented process, and of infringing goods that manufactured abroad, is an act of patent infringement. In *Ajinomoto Co. v. Archer-Daniels-Midland Co. (ADM)*,¹⁰⁰ Genetika was the inventor of a patented method for preparing bacterial strains who granted its US patent rights to Ajinomoto. ADM was producing a feed supplement using the patented bacterial strains imported from a producer who had a license from Genetika in Sweden. Ajinomoto claimed that their patent was infringed by ADM importing the bacterial strains into the US. According to 35 USC 271(g), the unauthorised importation of a product made by a process patented in the United States constitutes an infringement. ADM claimed that since the imported bacteria was produced under a valid licence by Genetika, there was no infringement and the importation should not be prevented. However, the Court ruled that the Swedish license was territorial and that the licensee, therefore, had no right to sell or use in the US, thus holding ADM liable for infringement.

Significantly this case illustrates that even when the goods imported are manufactured under licence given to the manufacturer, third-party IPRs can exist over the goods on account of the territorial nature of IPRs, and hence the buyer can be held liable for infringement of third-party IPRs. This example raises the question as to which party to the sale of goods contract will bear the losses which are incurred due to third-party IPRs over the goods.¹⁰¹

⁹⁷ See TRIPS Article 28(1), Article 26 of the CPC, UK Patent Act 1977 s60(1), 35 USC §271.

⁹⁸ 796 F.3d 1338 (Fed. Cir. 2015).

⁹⁹ *Ibid.*

¹⁰⁰ 228 F.3d 138 (2000).

¹⁰¹ This issue is examined under forthcoming Chapter 3.

2.3.2. Secondary Infringement

Secondary infringement refers to the dealing of infringing works.¹⁰² Although the term is generally employed by copyright law, patent and trademark laws also have this classification but deploy different terminology. Patent law refers to secondary infringement as indirect,¹⁰³ and under trademark law, it arises where the person who applied the mark ‘knew or had reason to believe’ that the application of the trademark was without consent.¹⁰⁴ The availability of this type of infringement can also bring some problems in terms of international sales context and especially for the buyer. Regarding that this infringement related to dealing of infringing work, a buyer can infringe when he purchases the infringing goods and uses them in his commercial activities. The secondary infringement rules and the scope of the liability vary amongst the national IP laws, furthermore, the extent that the buyer may be liable also differs according to the national law of the country where these infringements arise. Under this subheading, the subject is briefly illustrated in order to reflect the risk of being liable as a secondary infringer for the buyer of infringing goods rather than providing an extensive analysis.

Secondary infringement requires that the infringer should carry some degree of knowledge in order to be held liable. This point should be taken into account when the seller’s liability to the buyer is considered. It is questionable if the buyer’s knowledge about the infringing activity will lead to a reduction in the seller’s liability is questionable. While this theme is addressed in the next chapter, this part of the discussion will consider the degree of the knowledge, along with the risk of being liable to infringements.

In the realm of patent law, Section 60(2) of the UK Patent Act 1977 deals with secondary infringement and includes supplying or offering for supply relating to an essential element, for putting the invention into effect.¹⁰⁵ The main issue under secondary infringement is the knowledge which the indirect infringer should have. In the UK law, to be held liable for infringement the supplier ‘knows or it is obvious’ that it is intended for putting the invention into effect.¹⁰⁶ In *Grimme v Scott*,¹⁰⁷ the claims referred to infringements of a patent that related to a machine. It was argued, with reference to s60(1), that the interchangeable parts of the

¹⁰² Mark Bartholomew and John Tehranian, ‘The Secret Life of Legal Doctrine: The Divergent Evolution of Secondary Liability in Trademark and Copyright Law’ (2006) 21 Berkeley Tech. LJ 1363.

¹⁰³ *Copinger and Skone James on Copyright* (n 77) 14-43.

¹⁰⁴ UK Trade Marks Act 1994 s10(5).

¹⁰⁵ s60(2) of Patent Act 1977. Similarly, in EU by the CPC Article 26, supply or offer to supply within the territories of the Contracting States relating to an essential element of the invention for putting into effect is defined as indirect use of the invention. See Paul England, ‘Common Issues of Direct and Indirect Infringement in Europe and the UPC’ (2017) 12 JIPLP 601.

¹⁰⁶ UK Patent Act 1977 s60(2).

¹⁰⁷ *Grimme Landmaschinenfabrik GmbH & Co KG v Scott (t/a Scotts Potato Machine)* [2010] EWCA Civ 1110.

potato separator that were marketed and operated by the defendant infringed the claimants' patent directly. In terms of 60(2) the supply or offer to supply in the UK 'means relating to essential element of the invention, for putting the invention into effect' constitutes a secondary infringement. The Interchangeable steel-roller was considered to be 'the supply of a means by which that can be achieved, and is the supply of a means essential for that purpose'.¹⁰⁸ The court rejected the claim that the infringement can be established when the whole machine is infringing nature.¹⁰⁹ In addressing the knowledge requirement, the court followed the 'inherently probable' view,¹¹⁰ and stated that '[it is] not merely if the supplier knows that the means are intended to put the invention into effect, but also if that would be obvious to a reasonable person in the circumstances.'¹¹¹

From the sales law perspective, a buyer can purchase the goods manufactured through a patented process, and his dealings in this respect may fall within the permitted scope. However, the buyer can be liable for secondary infringement in putting these goods into effect in the UK through his sub-buyers, even the good itself does not cause direct infringement. Although knowledge must be evidenced in order to establish, the possibility of being liable for the acts of sub-buyers should not be disregarded especially when the liability can arise irrespective of the existence of direct infringement.

In the US law, according to 35 USC §271(b) a person who 'actively induces infringement of a patent' is liable for infringement, and by §271(c) establishes that sell, offer for sale or import the components of a patented invention 'constitute a material part of the invention', with what is used for infringement being deemed as a contributory infringement.¹¹² The knowledge requirement was discussed in *Global-Tech v SEB* where a deep fryer patented by SEB was infringed by Hong-Kong company Pentalpha (owned by Global Tech) upon the grounds that the manufacture and supply of a deep fryer had copied some features of the original, with the imitation then being distributed in the USA.¹¹³ The court adopted the willful blindness test to decide the supplier's knowledge:

'[f]irst, the defendant must subjectively believe that there is a high probability that a fact exists. Second, the defendant must take deliberate actions to avoid learning of that

¹⁰⁸ *Grimme v Scott (n 107)* at [102].

¹⁰⁹ *Ibid* at [100]-[101].

¹¹⁰ *Ibid* at [107].

¹¹¹ *Ibid* at [109]. See also *Cranway v Playtech* [2009] EWHC 1588 (Pat).

¹¹² See Mark E. Lemley, 'Inducing Patent Infringement' (2005) Stanford Public Law and Legal Theory Working Paper Series Research Paper No:110 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=772264> accessed 10 November 2018.

¹¹³ *Global-Tech Appliances Inc., et al., Petitioners v SEB S.A.* 563 US 754 (2011).

fact. These requirements give willful blindness an appropriately limited scope that surpasses recklessness and negligence.¹¹⁴

The knowledge test, as applied by the court, does not excuse the infringers from their failure or ignorance to search for the patent, it is suggested that willful blindness test prevents the infringers from ‘burying their head in the sand.’¹¹⁵ On the other hand, some authors argue that willful blindness test brought vagueness and a lack of clarity on determining the threshold of the knowledge.¹¹⁶ Concern has also been raised relating to the low threshold of the knowledge; it may cause interference of the development of technologies.¹¹⁷ Concerning this low threshold for the knowledge imposed by the US courts, the risk of liability arising in relation to the supply of such products may actually seem higher in the US.¹¹⁸

In terms of copyright, the UK CPDA 1988 employs different classes of secondary infringement between sections 22-26. The Act defines the requirements for secondary liability in the cases of dealing infringing copies,¹¹⁹ providing means for making infringing copies,¹²⁰ or permitting the infringing performances.¹²¹ Similar to the patent law regulations, the CPDA 1988 also requires a degree of knowledge in order to decide the defendant’s liability. For example, if the secondary infringer ‘knows or has reasons to believe’ the article was an infringing copy, the liability arises. With the wording of ‘he knows’ in the related sections of the CPDA 1988 attests to the fact that actual knowledge is a key requirement, which is difficult to prove.¹²² Whereas, the phrase ‘has reason to believe’ denotes the constructive knowledge that is interpreted as ‘reason to believe’ and ‘a reasonable man in the same position with the infringer.’¹²³

On account of the infringer’s knowledge, it can be referred back to the *Sony v Ball*.¹²⁴ According to the CPDA s27(3), if the item ‘has been or is proposed to be imported into the United Kingdom’, it is an infringing copy.¹²⁵ It was argued that there had been no infringements

¹¹⁴ *Global-Tech v SEB* (n 113).

¹¹⁵ Timothy R. Holbrook, ‘The Supreme Court’s Quiet Revolution in Induced Patent Infringement’ (2016) 91 *Notre Dame L. Rev.* 1007, 1030.

¹¹⁶ Jeremy Adler, ‘See No Evil: How the Supreme Court’s Decision in *Global-Tech Appliances, Inc. v. SEB S.A.* Further Muddles the Intent Element of Induced Infringement’ (2014) 11 *Nw. J. Tech. & Intell. Prop.* 559; Kristin M. Hagen, ‘Eyes Wide Shut: Induced Patent Infringement and the Willful Blindness Standard’ (2013) 17 *Marq. Intell. Prop. L. Rev.* 305.

¹¹⁷ John David Evered, ‘Inducement of Patent Infringement after *Global-Tech* and *Akami*: A Deadly Weapon against New Enabling Technologies’ (2014) 23 *Tex. Intell. Prop. L.J.* 43.

¹¹⁸ *Ibid.* See David Nilsson and Timo Minssen, ‘What intent, Whose Intent, and to What Extent? The Knowledge Requirement in Indirect Patent Infringement’ (2012) 7 *437, 447-448.*

¹¹⁹ The CPDA 1988 s22 and s23.

¹²⁰ The CPDA 1988 s24.

¹²¹ The CPDA 1988 s25 and s 26.

¹²² *Copinger and Skone James on Copyright* (n 77) 8-10.

¹²³ See *L.A. Gear Inc v Hi-Tec Sports Plc* [1992] F.S.R. 121.

¹²⁴ *Sony v. Ball* (n 16).

¹²⁵ *Sony v. Ball* (n 16) at [19].

since ninety per cent of the chips were exported abroad, and under the CPDA s296(1)(b), a copyright infringement arises if an individual knew or had reason to believe that the technical device applied to a computer program would be used to make infringing copies, and manufactures, sells, imports, advertises for sale or hire, and/or publishes information intended to enable or assist persons in circumventing the protective device.¹²⁶ The court held that the defendant knew ‘full well what the chip is supposed to do.’¹²⁷ Also, Laddie LJ stated that the underlying purpose of the CPDA s296 was to stop trade in such devices which are used to manufacture infringing and unlicensed copies,¹²⁸ and that a trader conducting a business in the UK and exporting goods to member states can be sued ‘also for breaches of similar legislation in other Member States and pursuant to the provisions of the Brussels Convention.’¹²⁹

In *Sony*, Ball was the manufacturer of the infringing goods; however, Ball could potentially sell these infringing goods to a buyer who then imports these into the UK. The buyer could, therefore, be stopped from undertaking commercial activities. It can be said that the copyright owners’ rights are at stake not only by the direct infringer, i.e. who is producing infringing copies but also by the sellers of these products regardless of their awareness of or willingness to commit infringement.¹³⁰

The liability for secondary infringement is established based on the economic and moral rationales. Based on the economic ground, it is regarded a tool to allocate the costs to those who can prevent the future damages, and on moral grounds, the person who intentionally brings the harm should be liable even though his acts do not cause direct infringement.¹³¹ Nonetheless, the essential feature of this infringement is its aid for providing relief to the IPRs holders in the cases where the direct infringer of IPRs are not within the discretion of the territory where the IPRs are protected.¹³² Therefore, when the IPRs holder cannot reach the direct infringer due to enforcement issues, or the foreign domestic IP regulations do not protect the right holders’ right to distribute or import, secondary infringement assists the bring the dealer of this

¹²⁶ Ibid 26. See the CPDA s296(1)(b)

¹²⁷ Ibid Laddie LJ para 10.

¹²⁸ Ibid at [21].

¹²⁹ Ibid at [23].

¹³⁰ See Bartholomew and Tehranian (n 102) 1403; *Copinger and Skone James on Copyright* (n 77) 8-02.

Copinger and Skone states that: ‘[to] an extent, these secondary right granted to copyright owners can be regarded as an aspect of the distribution right although, of course, they only relate to infringing copies and not legitimate copies.’ *Nintendo Co Ltd v Playables Ltd* [2010] FSR 36. The importation of devices which were enabled to play unlawful copies of Nintendo games by storage of boot-up software was held to be an infringement.

¹³¹ Bartholomew and Tehranian (n 102) 1366.

¹³² Lynda J. Oswald, ‘International Issues in Secondary Liability for Intellectual Property Rights Infringement’ (2008) 45 *American Business Law Journal* 247; Graeme B. Dinwoodie, Rochelle C. Dreyfuss, and Annette Kur, ‘The Law Applicable to Secondary Liability in Intellectual Property Cases’ (2009) 42 *NYUJ Int’l L. & Pol.* 201.

infringing goods within the scope of IP.¹³³ When a buyer imports infringing goods from abroad, then resells or offers to resale them in the country where IPRs over the goods are protected the secondary infringement can arise.

2.4. Sale of Counterfeit Goods

There is a growing trend towards trade in counterfeit goods, which constitutes 2.5% of world trade and targets a wide range of items.¹³⁴ Not only the amount of trade in counterfeit goods, but also the types of goods being counterfeited are increasing, and this has adverse effects on the rights holders, as well as countries, public health, and the environment. Measures are therefore being taken at the national and international levels to combat counterfeiting.¹³⁵ These typically involve goods being seized at borders, and according to the Report on EU Customs Enforcement of Intellectual Property, 52.77% of the seized goods are destroyed, 28.6% of them are subjected to small consignment destruction, and a litigation process is initiated for 8.06%.¹³⁶

According to the OECD, ‘counterfeiting and piracy are terms used to describe a range of illicit activities linked to intellectual property rights (IPR) infringement.’¹³⁷ By means of counterfeiting, goods are produced which look identical or similar to the original goods. Article 51, footnote 14(a) of the TRIPS defines counterfeit goods thus:

‘any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby

¹³³ Lynda J. Oswald, ‘Secondary Liability in Intellectual Property Law Infringement in the International Arena: Framing the Dialogue’ in Robert Bird and Subhash C. Jain (eds) *The Global Challenge of Intellectual Property Rights* (Edward Elgar 2008) 37; Lemley, ‘Inducing Patent Infringement’ (n 112).

¹³⁴ See OECD/EUIPO (2016), *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact* (OECD Publishing, 2016); Frontier Economics, ‘The Economic Impacts Of Counterfeiting and Piracy’ (Commission Report International Chamber of Commerce, Business Action to Stop Counterfeiting and Piracy (BASCAP) and International Trademark Association (INTA), 2017)

<https://www.inta.org/Communications/Documents/2017_Frontier_Report.pdf> accessed 10 November 2017; WIPO, Advisory Committee on Enforcement, (Geneva, 2011)

<http://www.wipo.int/edocs/mdocs/enforcement/en/wipo_ace_7/wipo_ace_7_5.pdf> accessed 10 November 2017.

¹³⁵ See Report on EU Customs Enforcement of Intellectual Property Rights Results at the EU Border 2016 (European Commission, 2017)

<https://ec.europa.eu/taxation_customs/sites/taxation/files/report_on_eu_customs_enforcement_of_ipr_at_the_border_2017.pdf> accessed 10 November 2017; 2017 Situation Report on Counterfeiting and Piracy on the European Union (EUROPOL and EUIPO, 2017).

¹³⁶ Ibid.

¹³⁷ The Economic Impact of Counterfeiting and Piracy, Executive Summary, (OECD, 2007) <<https://www.oecd.org/sti/38707619.pdf>> accessed 12 November 2017.

infringes the rights of the owner of the trademark in question under the law of the country of importation.’¹³⁸

Piracy is generally used to refer an unauthorised copy of copyrighted work, the use of the word ‘counterfeit’ within this thesis is intended to cover all the unauthorised manufacture of the goods subjected to any IPRs.

The combating with counterfeit goods which enter into states via importation is an issue for many countries; in this regard at the EU level, tools are employed to prevent infringing goods to be placed into the EU market. Whilst preventing the influx of counterfeit goods, the EU also takes precautions for the e-commerce which targets the EU customers from the outside of the EU.

In *Blomqvist v Rolex SA*,¹³⁹ a fake Rolex watch was bought by a Danish consumer from a Chinese online shop. Upon the arrival of the watch, Danish customs authorities suspended its customs clearance and informed both Rolex and the customer. Since the customer argued that there was no breach of IPRs in Danish law, the CJEU held that the sale of infringing goods constitutes ‘distribution to the public’ according to the Copyright Directive,¹⁴⁰ and ‘use in the course of trade’ under the Trademark Directive.¹⁴¹ The watch, therefore, constituted a counterfeit good.¹⁴² The CJEU ruled in favour of the protection of IPR holders when infringing goods entered EU territory regardless of there being an online sale in a non-member country and did not investigate whether the goods were subject to ‘an offer for sale or advertising targeting EU consumers’.¹⁴³ Even though this was a consumer sale, the CJEU ruled in favour of protecting IPR holders and the prevention of counterfeit goods by means of customs regulations. It can be expected that in cases involving the sale of counterfeit goods between businesses, there will also be strong protection of IPRs and increased application of seizure at customs. This case also recognises the growing phenomena of e-commerce which leads to the extraterritorial application of national laws. This extraterritorially allows the right holder to take measures to prevent infringements when the seller of goods is located outside the country, but the seller’s activities reach or targets the customers in the country where the right is

¹³⁸ TRIPS also defines the pirated copyrighted goods by footnote 14(b). See Council Regulation (EC) 608/2013 concerning custom enforcement of intellectual property rights, there is a similar, but detailed definition which also covers geographical indication provided by Article 2(5).

¹³⁹ Case C-98/13 *Martin Blomqvist v Rolex SA and Manufacture des Montres Rolex SA* [2014] ECDR 10.

¹⁴⁰ Article 4(1) of the Directive.

¹⁴¹ Article 5(1) and (3) of the Directive.

¹⁴² *Martin Blomqvist* (n 139) at [23].

¹⁴³ *Ibid* at [34].

protected.¹⁴⁴ Considering that the infringer can target the customers regardless of the location, in an international sales context, even the e-commerce activities can cause infringement and result to take such combatting efforts. Either purchase of the counterfeit goods or the resale of these goods by the buyer via e-commerce can lead him being confronted with measures which prevent the sale of counterfeit goods. Hence, these counterfeit problems need to be considered within the sales context.

In *Gillette UK Limited and Anr v. Edenwest Limited*,¹⁴⁵ a dispute arose because razor blades which were sold and supplied by Edenwest looked identical to Gillette's razor blades. Edenwest purchased the razor blades from an Italian supplier and then resold them to another company in the UK. As a result of inspecting the packaging of the razor blades, Blackburne J held that the razor blades were 'identical in every respect- even down to the same batch number,'¹⁴⁶ and therefore deemed the packaging to be counterfeit. These counterfeit razor blades infringed the plaintiff's registered trademark and constituted passing-off. The court dismissed the defendant's argument that they had no knowledge of the infringement of the trademark or of passing off, and ordered to the defendant to pay damages.¹⁴⁷

As shown above, the counterfeit problems can involve different steps, different actors who are either located in the country where infringement claimed or outside of this country. Thus, a buyer of counterfeit goods which are either seized or destroyed at the borders to prevent usage, resale, or importation of these goods, or after the entrance of these counterfeit goods to the country, his resale activities pose a risk of being liable for these goods.

2.5. IP Doctrines: Loophole for Infringement Claims?

2.5.1. Parallel Imports and the Doctrine of Exhaustion

The development of international trade and globalisation have encouraged rights holders to search for IPRs protection beyond their own territories.¹⁴⁸ International conventions attempt to establish fundamental yardsticks for domestic IP law, and issues arise at the international level because adequate protection of IP law affects free trade.¹⁴⁹ While adequate protection

¹⁴⁴ Marketa Trimble, 'Extraterritorial Enforcement of National Laws in Connection with Online Commercial Activity' in John A. Rothchild (eds) *Research Handbook on Electronic Commerce Law* (Edward Elgar 2016) 261.

¹⁴⁵ [1994] RPC 279.

¹⁴⁶ Ibid at 286.

¹⁴⁷ Ibid. at 290, 294.

¹⁴⁸ See Susan K. Sell, *Private Power, Public Law the Globalization of Intellectual Property Rights* (CUP 2003) 10; Cornish (n 1) 48.

¹⁴⁹ See United Nations Economic Commission for Europe, 'Intellectual Property Commercialization Policy Options and Practical Instruments' (United Publications 2011); Rod Falvey, Neil Foster, and David Greenaway, 'Intellectual Property Rights and Economic Growth' (2006) 10 *Review of Development Economics* 700.

encourages investment and innovation, providing IPR holders unlimited exclusive rights to control or restrict dealing with the products that they have their IPRs may damage barrier-free trade.¹⁵⁰ The doctrine of exhaustion which evolved in the US prevents the IPRs holders from exercising their exclusive rights to control the distribution of goods that are subject to IPRs, upon the grounds that this may become an obstacle to free trade.¹⁵¹ Then, different approaches have been developed by common and civil law systems.¹⁵² According to this doctrine, after the first sale of goods, that are protected by copyright, patent, trademark or other IPR in accordance with the consent of rights holder, the rights holder's exclusive rights are terminated, and further sale of these goods does not require the rights holder's permission.¹⁵³ In brief, '[t]he purchaser and all subsequent owners are free to use or resell the product just like any other item of personal property, without fear of an infringement lawsuit.'¹⁵⁴

In connection with the exhaustion, parallel importation contributes to the debate of whether a trader is allowed to engage in the parallel importation of goods protected by IPRs.¹⁵⁵ Parallel importing is defined as 'goods produced genuinely under protection of a trademark, patent, or copyright, placed into circulation on one market, and then imported into a second market without the authorisation of the local owner of the intellectual property right.'¹⁵⁶ To the extent that countries allow parallel import of certain goods, the IPR holder's right to restrict import or export of the goods is diminished and they cannot claim infringement upon the basis parallel importation. The issue of whether the doctrine of exhaustion strictly applies to these cases along with the question of whether the dealer of these goods (as seller or buyer) can enjoy them without being subject to IPRs infringement claims are of utmost importance to this thesis. If the IPRs right holders did not exert control over post sale of these goods, the buyer would enjoy quiet possession of the goods and would not be disturbed. Consequently, the seller would not become liable to him.

¹⁵⁰ Amelia Smith Rinehart, 'Contracting Patents: A Modern Patent Exhaustion Doctrine' (2010) 23 *Harvard Journal of Law & Technology* 483, 490-492; Gül Okutan, 'Exhaustion of Intellectual Property Rights: A Non-Tariff Barrier to International Trade?' (1996) 30 *Annales de la Faculté de Droit d'Istanbul* 110.

¹⁵¹ *Ibid.* Ariel Katz, 'The Economic Rationale for Exhaustion: Distribution and Post-Sale Restraints' in Irene Calboli and Edward Lee (eds) *Research Handbook on IP Exhaustion and Parallel Imports* (Edward Elgar 2016); Jay A. Erstling, and Frederik W. Struve, 'A Framework for Patent Exhaustion from Foreign Sales' (2014) 25 *Fordham Intell. Prop. Media & Ent. LJ* 499, Okutan (n 150).

¹⁵² Okutan (n 150).

¹⁵³ Erstling and Struve (n 151).

¹⁵⁴ *Impression Products, Inc. v. Lexmark International, Inc.* 581 U.S., 137 S. Ct. 1523 (2017).

¹⁵⁵ See Chung-Lun Shen, 'Intellectual Property Rights and International Free Trade: New Jurisprudence of International Exhaustion Doctrine under the Traditional Legal System' (2012) 7 *JICLT* 176.

¹⁵⁶ Keith E. Maskus, 'Parallel Imports' (2000) 23 *The World Economy* 1269, 1270.

There are three different exhaustion regime with regard to the extent the parallel importation is available. First, there is the national exhaustion regime according to which IPR holders' exclusive rights are exhausted after the authorised first sale of the goods subjected to IPRs within the territory where the IPRs have been granted.¹⁵⁷ Second, there is the regional exhaustion regime under which the exhaustion of IPRs occurs after the first sale within a group of countries.¹⁵⁸ The EU adopts this approach, and parallel importation is allowed between its member states after the authorised first sale of the protected goods.¹⁵⁹ Finally, the international exhaustion regime is applied in some jurisdictions, according to which IPRs are exhausted upon the first authorised sale anywhere in the world, with the consequence that parallel importation does not constitute an infringement of IPRs.

The US approach has been depended on the national exhaustion rule, and this means that the right of the right holder after the first sale can be exhausted if the first sale is within the country. In *Fuji Photo Film Co. v. Jazz Photo Corp.*,¹⁶⁰ the Court determined that 'importers cameras of solely foreign provenance are not immunised from infringement of U.S. patents by the nature of their refurbishment.'¹⁶¹ This position that the sale of the goods outside the country of protection is not within the scope of exhaustion is changed by *Impression Products, Inc. v. Lexmark International*,¹⁶² where the Supreme Court supported 'a middle-ground position' and held 'that a foreign sale exhausts patent rights unless the patentee expressly reserves those rights.'¹⁶³ Lexmark gave its customers two options: the first was to buy cartridges at a full price; the second was to purchase discounted cartridge through 'Return Program', which restricts the reuse and resale of these cartridges. The Supreme Court held that these restrictions are 'enforceable under contract law', but not under patent law.¹⁶⁴

A number of considerations have been raised in relation to this decision. With regard to economic considerations, it has been argued that the application of international exhaustion will lead the patent owner increasing the royalties or the licence fees 'to compensate for the loss of downstream profits.'¹⁶⁵ As prices increase, the exhaustion doctrine restricts the expected

¹⁵⁷ The doctrine of exhaustion was emerged within the US and national exhaustion regime is adopted. See Barrett (n 32).

¹⁵⁸ Maskus (n 156) 127.

¹⁵⁹ *Mastercigars Direct Ltd v Hunters & Frankau Ltd* [2007] ETMR 44.

¹⁶⁰ *Fuji Photo Film Co. v. Jazz Photo Corp.*, 249 F. Supp. 2d 434, 440 (D.N.J. 2003). See Daniel Erlichman, 'Jazz Photo and the Doctrine of Patent Exhaustion: Implications to TRIPS and International Harmonization of Patent Protection' (2002) 25 Hastings Comm. & Ent. LJ 307.

¹⁶¹ *Fuji Photo v. Jazz Photo* (n 160).

¹⁶² *Impression v Lexmark* (n 154).

¹⁶³ Ibid.

¹⁶⁴ Ibid.

¹⁶⁵ Jonathan Barnett and Ted M. Sichelman, 'Brief of 44 Law, Economics and Business Professors as Amici Curiae in Support of Respondent in *Impression Products, Inc. v. Lexmark International, Inc.*' (2017) USC Law

reward that is actually obtained from the patented product.¹⁶⁶ On the other hand, it is also believed that the right holder can overcome the problems associated with the exhaustion by licencing the patent rather than selling it or developing contractual practices that withhold certain rights.¹⁶⁷ It should also be questioned whether a dichotomy has emerged between the 35 USC §271(b) where a person who ‘actively induces infringement of a patent’ is liable for infringement (which also includes importation as an infringement) and the exhaustion doctrine put in place by the interpretation of the *Lexmark* case. When the Supreme Court revised the decision of the Federal Circuit, it interpreted the exhaustion doctrine as a limit on the patentee’s right.¹⁶⁸ Based on this view, it may not be presumed that there is any dichotomy in between *the Lexmark* and the patent law. However, it is argued that *the Lexmark* ‘expanded the scope of patent rights beyond what the United States Patent system intended.’¹⁶⁹ On the other hand, although the Congress remained silent on the application of exhaustion internationally, as it responds the technology and modifies the law, it is claimed that ‘maybe Congress will amend the statute in light of this ruling.’¹⁷⁰ Regardless of whether the Congress will respond positively to *the Lexmark*, in the current position after this decision patent holders can protect their exclusive rights regarding the import by adjusting their contracts, and clearly indicating that they reserve their rights in the US.

Considering to the impact of *the Lexmark* case and the application of international exhaustion over the patentee’s exclusive rights, the infringement of third-party IPRs via importation seems to be in limited availability. At that point, whether it is possible to overcome the effect of the doctrine of exhaustion by following certain approaches opens a question. The answer is essential for establishing a basis for this thesis argument which targets to show the risk of infringing the IPRs due to a sale of goods.

Regarding the thesis argument, impermissible repair can be presented here as a defence for the exhaustion. It is acknowledged that ‘a person who acquires a patented article has an implied

Legal Studies Paper No. 17-10, p10 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2923826> accessed 16 November 2018.

¹⁶⁶ See Barnett and Sichelman (n 165); Daniel J. Hemel and Lisa Larrimore Oulette, ‘Trade and Tradeoffs: The Case of International Patent Exhaustion’ (2016) 17 Colum. L. Rev. Online 116. Cf. Katz (n 151).

¹⁶⁷ Jiang Bian, ‘The Supreme Court Says Conditional and Foreign Sales Cannot Avoid IP Exhaustion and What Should IP Owners Do?—An Analysis of the Supreme Court’s IP-Exhaustion Jurisprudence’ (2018) les Nouvelles - Journal of the Licensing Executives Society, Volume LIII No. 1; Kathryn Penick, ‘Exhausted: The Effect of Post-Sale Restrictions and Location on Patentees’ Rights’ (2017) 20 Tul. J. Tech. & Intell. Prop. 235. Cf. James B. Kobak, ‘Lexmark, The Overruling of Mallinckrodt and the Future of Restraints on Alienation for Patented Goods’ (2017) 99 J. Pat. & Trademark Off. Soc’y 609.

¹⁶⁸ *Impression v Lexmark* (n 154).

¹⁶⁹ Gouthami Vanam, ‘Impact of Lexmark Case on Patent Exhaustion’ (2017) 16 J. Marshall Rev. Intell. Prop. L. 487, 503.

¹⁷⁰ Penick (n 167) 245.

licence to keep it in repair.¹⁷¹ In light of that, the right holders IPRs exhaust after the authorised first sale of the goods protected by IP, the right holder cannot prevent the subsequent buyers right to repair the goods in question.¹⁷² However, there is a line between the permissible and impermissible repair. If repair leads to assembling a ‘new article’, the repair is not accepted as permissible which also within the scope of exhaustion and constitutes an infringement.¹⁷³ In the sales context, a buyer’s resale activities can be within the scope of exhaustion doctrine, thereof; he cannot be stopped from dealing these goods based on third-parties IPRs infringement. Nevertheless, purchasing the repaired goods poses a risk of being liable for infringement if the repair exceeds beyond the permissible scope.

The case law highlights factors that need to be observed when deciding upon if the repair falls within the permissible amounts. In the US, there is a distinction between the permissible repair and reconstruction. In *Fuji Photo Film Co. v. Jazz Photo Corp.*,¹⁷⁴ Fuji’s patent for disposable cameras was infringed by Jazz Photo, who imported used cameras and placed a new film in them. It was held that Jazz had made a reconstruction of the camera ‘which is tantamount to making a new patented product on the template of the original after its useful life is spent.’¹⁷⁵ The Court held that ‘importers cameras of solely foreign provenance are not immunised from infringement of U.S. patents by the nature of their refurbishment.’¹⁷⁶

In the *Lexmark* case, Impression acquired empty Lexmark cartridges, which were then refilled and sold. The court did not address the question of if the refurbishment fell within the permissible scope Judges Dyk and Judge Hughes observed that “ authorized sale of a patented article [. . .] free[s] the article from any restrictions on use or sale based on the patent laws.”¹⁷⁷ In *Jazz Photo*, the court applied the national exhaustion regime and held that ‘importers cameras of solely foreign provenance are not immunised from infringement of U.S. patents by the nature of their refurbishment.’¹⁷⁸ However, in *Lexmark* international exhaustion is adopted.

¹⁷¹ *British Leyland Motor Corp v Armstrong Patents Co.* [1986] RPC 279 at [358]. See also *United Wire v Screen Repair Services* [2000] 4All ER 353 (HL); Bently and Sherman, *Intellectual Property Law* (n 3) 543.

¹⁷² See Amber Hatfield Rovner, ‘Practical Guide to Application of (or Defence Against) Product-Based Infringement Immunities under the Doctrines of Patent Exhaustion and Implied License’ (2004) 12 *Tex. Intell. Prop. L.J.* 227

¹⁷³ John W. Osborne, ‘A Coherent View on Patent Exhaustion: A Standard Based on Patentable Distinctiveness’ (2004) 20 *Santa Clara High Tech. L.J.* 643; Mark D. Janis, ‘A Tale of the Apocryphal Axe: Repair, Reconstruction, and the Implied License in Intellectual Property Law’ (1999) 58 *Md. L. Rev.* 423

¹⁷⁴ *Fuji Photo v. Jazz Photo* (n 160).

¹⁷⁵ *Ibid.* 440.

¹⁷⁶ *Ibid.*

¹⁷⁷ *Impression v Lexmark* (n 154). See W. Lesser, ‘The Courts’ Interpretations of Legitimate Business Purposes, with Applications to *Lexmark*’ (2017) 16 *J. Marshall Rev. Intell. Prop. L.* 411.

¹⁷⁸ *Fuji Photo v. Jazz Photo* (n 160).

Whereas, in *Canon Inc. v. Recycle Assist Co.*,¹⁷⁹ the Japanese Grand Panel of IP High Court held that Canon's patent for a printer ink cartridge had been infringed by Recycle Assist, who imported recycled Canon cartridges and sold them in Japan even though Japan adopts the international exhaustion doctrine.¹⁸⁰ It was held that 'a third-party has made modification or replacement to the whole or part of the components that constitute an essential portion of the patented invention involved in the patented product',¹⁸¹ there was an infringement and granted an injunction to Canon.

The rule and test for the permissible repair vary from jurisdiction to jurisdiction, but it is an important point to be taken into account when deciding upon a case of recycling industry and infringement. For example, in the UK, *Schutz (UK) Ltd v Werit UK Ltd*,¹⁸² the inner bottle of the containers used to transport the liquid can be replaced by the manufacturers rather than the original producers of the containers. The court made its decision upon the basis of the bottle's characteristic (whether the repaired part constitutes 'subsidiary part of the patented article'),¹⁸³ its life expectancy,¹⁸⁴ whether the replaced part carries 'any aspect of inventive concept',¹⁸⁵ and the issue of if the purchaser makes a new article.¹⁸⁶ Considering these, repairs that affect the 'subsidiary part', enhances the life-span of the replaced part and are connected with the inventive concept can be accepted as an infringement. In common with the exhaustion doctrine, there is no single rule for the repair/recycle issues to overcome exhaustion issues.

Parallel importation in the EU, the importation of goods subject to IPRs should be within the territory of the EU, and therefore, importing them from outside the EU and putting them into circulation in the EU is prohibited. In *Zino Davidoff v A&G Imports*,¹⁸⁷ the defendant imported Davidoff's products from Singapore to sell them within the EU. Although the products were put on the Singapore market with Davidoff's consent, the ECJ held that the products must be sold within the market specified by the terms of the agreement between Singapore traders, so the agreement covers sub-purchasers.¹⁸⁸ This consideration led to the ruling that products

¹⁷⁹ *Canon Inc. v. Recycle Assist Co.* IP High Court, Grand Panel / Decided January 31, 2006 / Case No. 2005(ne)10021, Intellectual Property High Court of Japan, For English summary of decision see <http://www.ip.courts.go.jp/eng/vcms_lf/decision_summary.pdf> accessed 27 October 2017.

¹⁸⁰ See Benjamin Pi-wei Liu, 'Toward a Patent Exhaustion Regime for Sustainable Development' (2014) 32 Berkeley Journal of International Law 6; Anirut Somboon, 'Patent Exhaustion in Cases of Recycling and Repair of Goods' (2016) 6 Thammasat Business Law Journal; Mizuki Sally Hashiguchi, 'Recycling Efforts and Patent Rights Protection in the United States and Japan' (2008) 33 Colum. J. Envtl. L. 169.

¹⁸¹ *Canon Inc. v. Recycle Assist Co.* (n 171).

¹⁸² [2013] UKSC 16.

¹⁸³ *Ibid* at 61-64.

¹⁸⁴ *Ibid* at 65.

¹⁸⁵ *Ibid* at 67.

¹⁸⁶ *Ibid* at 74.

¹⁸⁷ [2002] Ch 109.

¹⁸⁸ *Ibid* para 52.

marketed with the rights holders' consent outside the EU do not limit the exercise of IPRs to prevent importation of the products within the EU.¹⁸⁹ Recently, in *Schweppes SA v Red Paralela SL et al.*,¹⁹⁰ the court considered whether the exhaustion rule for trademark can be applied when the proprietor assigned some of his rights to a third-party as part of a marketing strategy. Cadbury Schweppes established a trademark registered in the European Economic Area and assigned some of the trademark rights, including the ones registered in the UK, to Coca-Cola, while Schweppes International had the exclusive right of the trademark in Spain. Red Paralela imported the Schweppes products from the UK to Spain, and Schweppes subsequently asserted an infringement claim. The CJEU examined whether the trademark had been exhausted as Paralela alleged. The Court examined whether the essential function of the trademark was endangered. This negative result could have occurred if 'that proprietor could not oppose the import of an identical or similar product bearing an identical trade mark or one liable to lead to confusion, which had been manufactured and put into circulation in another Member State by a third-party having no economic link with that proprietor.'¹⁹¹ The trademark was registered for the same proprietor, but for the exhaustion, it is also required that 'from the date of expropriation or assignment, the marks have 'independently fulfilled its function, within its own territorial field of application.'¹⁹² Schweppes as a marketing strategy acted together with their assignee to create a global brand image, and this contributed to confusion about the origin of the trademark.

Consequently, CJEU ruled that 'the proprietor has himself compromised or distorted that function', so he cannot block the importation.¹⁹³ This ruling may, however, make it possible for the parallel importer to defend themselves based on exhaustion by claiming economic links between the proprietor and assignee, and the fact that the IPR was no longer a guarantee of origin.¹⁹⁴ If there had been no economic link between Schweppes and Coca-Cola, the Court would have dismissed exhaustion claim of the parallel importer.

Although the exhaustion doctrine allows the parallel trader to deal with the goods in question without paying royalties, and also provides a defence against infringement claims, there is no single and definite application of the rule. There are countries which prefer national exhaustion rules and do not allow the parallel importation of protected IP-related goods within their

¹⁸⁹ *Zino Davidoff* (n 187) at [47].

¹⁹⁰ 20 December 2017, *Schweppes SA v Red Paralela SL et al* Case C-291/16, EU:C:2017:990.

¹⁹¹ *Ibid* at para 38.

¹⁹² *Ibid* at para 39.

¹⁹³ *Ibid* at 40.

¹⁹⁴ Michele Giannino, 'Trademark Exhaustion and Global Brands: The Schweppes Judgement' (2018) 13 *JIPLP* 343.

territories, or regional exhaustion prevents importation from outside the specific region, and it is still a risk to infringe IPRs through international sales activities. Furthermore, there are a number of other legitimate justifications, setting aside geographical limitations, that must be taken into account in order to claim exhaustion in cases of parallel importation of goods subject to IPRs. Cases where the goods are altered,¹⁹⁵ repackaged,¹⁹⁶ and rebranded are excluded from the scope of the exhaustion doctrine; the IPRs holders can, therefore, prevent the parallel import and claim their IPRs have been infringed.¹⁹⁷ When an importer does not follow these requirements when importing, it is not possible to argue the exhaustion of IPRs, and consequently, the rights holder can allege infringement of his IPRs. Therefore, it can be claimed that, due to these restrictions, parallel importation of the goods and infringement of IPRs are still a live and vital topic.

2.6. Conclusion

As a result of ongoing technological developments and growing numbers of products that have attached patents, copyrights, trademarks or other IPRs, these IP-related goods have become a subject of the sale of goods. The sale of these goods within the cross-border context brings a risk of infringing the IPRs attached them. Even the goods may be manufactured under the authorisation, undertaking acts such as the sale, import, export, offer for sale or advertise, and others contrary to the right holders' consent raises the buyer's liability for infringement. Nevertheless, the infringement is not only related to those authorised goods but also it is possible that the buyer can encounter infringement claims over the goods he sold due to the territoriality nature of IPRs. Regarding the territoriality, a component of the goods which is not protected by IPRs can infringe a subject matter granted to another person in the country where the goods in question sold or entered. Moreover, the goods resold by the buyer can be counterfeits. When the infringement occurs, the right holder can assert his exclusive rights that affect the enjoyment of quiet possession. As a consequence, the commercial activities including the use of goods subject to IP in the business or the resale of these goods can be hampered.

The buyer of the goods over which third-party IPRs exist can defeat the claim by way of the exceptions or defences available under IP law. As an example of these defences, the doctrine of exhaustion can be employed, and the buyer can claim that the right holder's right is exhausted after the first sale of the protected goods. Nevertheless, as has already been

¹⁹⁵ See *Sony Computer Entertainments Inc. v Tesco Stores Ltd.* [2000] ETMR 102.

¹⁹⁶ See *Hollister Inc v Medik Ostomoy Supplies Ltd* [2013] ETMR 10.

¹⁹⁷ See Bently and Sharman, *Intellectual Property Law* (n 3) 1083; Özgür Arıkan, *Trade Mark Rights and Parallel Importation in the European Union* (On İki Levha Yayıncılık 2016) 202-229.

explained, this doctrine does not give absolute results and protects the buyer against the right holder. Because, there are countries that employ the exhaustion doctrine within a region or worldwide, it is nevertheless restricted by certain requirements. If these are not present, the IPRs in question cannot be exhausted as a result of infringement the buyer of goods subject to IPRs encounters a lawsuit. As a result of such infringements, IPR holders can apply for injunctions and restrict the holder of the infringing goods from using or reselling them.

Therefore, when the buyer has left any possible defence grounds, the question of how his legitimate expectations to be able to use or resell purchased goods can be protected arises. Regarding the buyer's expectation, it is an option to referring back to the sales agreement and ask for the seller's liability based on the existence of third-party IPRs over the goods he sold. The sales law obliges the seller to sell the goods within a certain quality and conformity of the contract and determines the consequences of the failure of this obligation. The third-party IPRs over the goods can also be solved regarding the sales law and brings the seller's liability to the buyer. In the next chapter, the seller's obligation of delivering the goods free from third-party IPRs, the scope of his obligation and his liability will be analysed.

CHAPTER THREE: Third-Party Intellectual Property Rights and Claims

3.1. Introduction

The relationship between IP law and sale of goods, and the risk of dealing in the goods which could infringe IPRs infringements raise the question of which rights a buyer can assert when infringement claims occur over the goods he bought. Accordingly, this chapter considers the provisions on the seller's duty to deliver goods free from any third-party IPRs under the CISG and the SGA. The aim is to analyse the main aspects of the provisions under these legal instruments in order to identify how these provisions under the CISG and the SGA operate to deal with the IP law problems which can have an impact on the performance of the sale of goods agreement. This examination will consider the ongoing problems in the language that the articles employ and their application to cases. On the ground of this analysis, a comparison between the rules under the CISG and the SGA is presented, and this will be used as a basis for ascertaining the extent of the seller's liability and which instrument offers sufficient rule that the buyer may benefit from it.¹

In the first section, the CISG's articles which impose the seller's duty to deliver goods free from any third-party rights and claims will be analysed. Under the CISG, there are two articles which differ from each other in terms of types of third-party rights. Article 41 is concerned with the seller's liability for third-party rights in general, whilst Article 42 specifically deals with third-party IPRs. Although Article 42 is the primary focus of this thesis, Article 41 is also examined as it establishes the general duty to deliver goods free from third-party rights. The analysis of Article 42 will also cover its development, which gives an insight into the background of the rule and the current situation, in order to determine the aim and function of the article. It will be followed by a comprehensive analysis of the requirements which trigger the seller's liability and the problems arising from these requirements.

Subsequently, the analysis will concentrate on the SGA s12 in terms of third-party IPRs. An English seller is obliged to transfer a good title to the buyer according to SGA s12, and s12(2) provides a warranty of freedom from encumbrances and enjoyment of quiet possession. Unlike the CISG, the SGA does not make any specific reference to third-party IPRs. Nevertheless, it is investigated whether the seller's duty to transfer good title may be affected by third-parties'

¹ For the 'sufficiency' test which is employed under this thesis, see '1.6.1. Determining Sufficiency'.

IPRs that results in a restriction on the resale or use of the goods.² Also, whether IPRs are covered as encumbrances, along with their impact upon the quiet possession is considered.³ After demonstrating how IPRs infringements can be resolved within the scope of s12, this chapter will proceed to examine the requirements that trigger the seller's liability under s12 when a third-party IPR restricts the buyer's use or the resale of the goods.

In the last section of the chapter, a comparative analysis will be undertaken regarding the possibility of buying and selling the goods subject to IPRs, which gives rise to the possibility of lengthy and expensive litigation and also reduces the enjoyment of goods. To what extent the seller will be held liable for these IPRs under the CISG and the SGA is of importance. There will be a critical analysis of the rules set out under these two legal instruments and whether there are any similarities and differences between them. This comparative analysis helps to develop an understanding of the buyer's needs under a sales contract.

3.2. Third-Party Intellectual Property Rights under the CISG

The CISG imposes a duty to deliver the goods on the seller and, also specifies the conditions that should be met in order to comply with this duty. The seller must deliver goods which conform to the contract terms on quality, quantity and description,⁴ and also free from any third-party rights and claims. The CISG by containing two articles draws a distinction between third-party rights and claims regarding whether or not they are based on the intellectual or industrial property (hereinafter IIP). The inclusion of separate articles occurred at the Diplomatic Conference in 1980.⁵ Prior this, German scholars had considered, industrial property claims to be a 'defect in title'.⁶ In the Conference, it was decided to treat third-party IPRs differently to the general rule,⁷ and it was stated that 'rights other than those based on

² See Michael Bridge and others(eds), *Benjamin's Sale of Goods* (9th edition (Inc. Supp), Sweet & Maxwell 2014) 4-001; Michael Bridge, *The Sale of Goods* (3rd edition, OUP 2013) 175.

³ See *Niblett Ltd v Confectioners' Materials Co, Ltd* [1921] 3 KB 387; *Microbeads A.G. and Another v Vinhurst Road Markings Ltd* [1975] 1 WLR 218.

⁴ See Peter Schlechtriem, 'The Seller's Obligations Under the United Nations Convention on Contracts for the International Sale of Goods' in Nina M. Galston and Hans Smit (eds.) *International Sales: The United Nations Convention on Contracts for the International Sale of Goods* (Matthew Bender 1984) 6-30.

⁵ Summary Records of Meetings of the First Committee, 17th meeting (UN Doc A/CONF.97/C.1/L.124) in UN, *United Nations Conference on Contracts for the International Sale of Goods; Official Records* (UN Doc A/CONF.97/19) 323.

⁶ Ingeborg Schwenzer, 'Article 42' in Ingeborg Schwenzer (eds) *Schlechtriem & Schwenzer Commentary on the UN Convention on the International Sale of Goods (CISG)* (4th Ed, OUP 2016) 693; See Fritz Enderlein, 'Rights and Obligations of the Seller under the UN Convention on Contracts for the International Sale of Goods' in Petar Sarcevic & Paul Volken (eds) *International Sale of Goods: Dubrovnik Lectures* (Oceana 1996) 180. See also Thomas M. Beline, 'Legal Defect Protected by Article 42 of the CISG: A Wolf in Sheep's Clothing' (2007)

⁷ University of Pittsburgh Journal of Technology Law & Policy 1, 6. Beline thinks that any problems regarding IIP rights could have been solved by ULIS Article 33 which is for non-conformity of the goods.

⁷ John O. Honnold, *Documentary History of the Uniform Law for International Sale* (Kluwer Law and Taxation Publishers 1989) 545-549.

industrial or intellectual property were subject to a different regime'.⁸ The reasoning that underpins this separation will be examined in the following sections; though at present it can be observed that the drafters considered the nature of IPRs, by taking into account its territoriality, property nature, along with those unregistered IPRs whose protection is not dependent upon the registration.

At present, Article 41 of the CISG sets out the general liability rule, and by its second sentence third-party IPRs are left to be solved by Article 42. Because Article 41 establishes the limits of general liability for third-party rights and claims, and it was also applied for IPRs issues until a distinction was drawn, there is a link between Articles 41 and 42. The analysis of the CISG in this chapter will, therefore, begin with Article 41 with a consideration that this can provide to develop the understanding of the liability under Article 42.

3.2.1. General Liability for Third-Party Rights

Article 41 determines explicitly the seller's obligation to deliver goods without defects in title. Article 41 states that:

The seller must deliver goods which are free from any right or claim of a third party, unless the buyer agreed to take the goods subject to that right or claim. However, if such right or claim is based on industrial property or other intellectual property, the seller's obligation is governed by article 42.

Article 41 offers protection for the buyer in cases when the seller failed to deliver goods without any encumbrances which may hamper the buyer's enjoyment of the goods in question.⁹ A buyer's expectation of using or reselling goods he purchased may be frustrated by third-party rights and claims over the goods. As this article does not inquire whether the seller has either any knowledge or fault concerning the occurrence of third-party rights or claims, the seller's liability is strict liability. However, the seller can be relieved from the liability if the buyer gives consent, either express or implied (depending on the circumstances), on receiving the goods with third-party rights over them.

Article 4 explicitly excludes the validity and effect of the contract on the property in the goods sold from the sphere of the CISG.¹⁰ The question of the validity of third-party property rights

⁸ Summary Records of Meetings of the First Committee, 17th meeting (n 5) 325, note 49 and 51.

⁹ See Stefan Kröll, 'Article 41' in Stefan Kröll, Loukas Mistelis and Maria del Pilar Perales Viscasillas (eds) *UN Convention on Contracts for the International Sale of Goods (CISG)* (Hart 2011) 636.

¹⁰ See John O. Honnold, *Uniform Law for International Sales under the 1980 United Nations Convention* (3rd ed, Wolters Kluwer Law and Business 1999). See also Honnold, *Documentary History* (n 7) 107. In Progress Report of the Working Group, it is specifically said that the purpose of the Article 52 of ULIS (which is counterpart of Article 42 of the CISG) is 'the guarantee of title by the seller' and transfer of the property was not in the scope of Article 52.

over the goods is decided with reference to the rule *lex rei sitae*. Given that, if the failure to deliver the goods without any third-party rights and claims renders it ‘void’ under the applicable law, and the remedies applied in this situation differs from the remedies provided under the CISG, it is open to question the application of the CISG is prevented.¹¹ It is generally supported that as the CISG already sets the rule for Article 41 issues, the domestic rules should not intervene in the application of Article 41 which is specially regulated by the CISG.¹²

3.2.1.1. Third-Party Rights

A third-party right raised over the goods in question can be proprietary, contractual in nature or be imposed by public authorities. In particular, defects in title exist based on the infringement of third-party rights *in rem* which relates to property issues, this may arise over the goods where the seller fails to transfer the ownership because either he is not the rightful owner of the goods or he does not have the consent of the real owner to transfer the property.¹³ Also, if the domestic law of the country where the goods are sold does not allow the buyer to acquire the goods in question as a *bona fide* purchaser, the buyer can apply Article 41. This situation occurred in a case heard by the Appellate Court Dresden in which a Belarusian buyer bought a used automobile and subsequently discovered that the automobile was stolen, whereupon the police seized it.¹⁴ The court held that the seller failed to transfer the property, and so he breached his delivery obligations under Article 30 and Article 41.

In addition to the property rights, security interests over the goods, liens and contractual obligations which were entered into previously with a third-party can be shown as an example of the sort of third-party rights that can hamper the buyer’s enjoyment of the goods.¹⁵ For example, security interests obtained by the creditors, carriers, warehouse owners or similar persons, can continue to exist after the goods in question have been delivered to the buyer.¹⁶

3.2.1.2. Third-Party Claims

Article 41 not only provides that third-party ‘rights’ can trigger the seller’s liability but also that a ‘claim’ by a third-party can lead to the exercise of this provision. This inclusion of claims within the scope of Article 41 can be considered as an extension of the seller’s liability in

¹¹ See Honnold, *Uniform Law* (n 10) 388; Kröll, ‘Article 41’ (n 9) 645; Schwenger, ‘Article 41’ in *Schlechtriem & Schwenger Commentary* (n 6) 691.

¹² Ibid. See also, Ulrich G. Schroeter, ‘Contract Validity and the CISG’ (2017) 22 *Uniform Law Review* 47.

¹³ Schwenger, ‘Article 41’ (n 11) 681.

¹⁴ *Oberlandesgericht Dresden* (Germany) 21 March 2007 (*Stolen automobile case*) (PACE).

¹⁵ See Schwenger, ‘Article 41’ (n 11) 682; Enderlein (n 6) 178-179.

¹⁶ For a detailed analysis see Djakhongir Saidov, *Conformity of Goods and Documents The Vienna Sales Convention* (Hart 2015) 189-191.

comparison with national laws because Article 41 does not distinguish between claims, whether they are valid or ill-founded, in order to invoke the seller's liability.¹⁷

The justification behind this inclusion can be questioned. If the article would not have covered third-party 'claims', the buyer would have had to wait to apply Article 41 until the court establishes the validity of the claim. However, with respect to international sales, it is unreasonable for the buyer to bear the risk of litigation and of being liable to third-parties.¹⁸ Schlechtriem's view, based on the principle that 'the buyer shall enjoy the quiet possession of the goods', lends further strength to the proposition that third-party claims should be covered by Article 41.¹⁹ Because of these claims, the buyer may prefer to stop dealing with the goods until the true nature of the claim is exposed in order to prevent further losses that may occur when the third-party is rightful. For example, if the buyer resells the goods, he would avoid reselling them for a while to avoid facing any further problems with his sub-buyers. Also, as explained in the Secretariat Commentary, the litigation that may be undertaken in order to reveal the true nature of third-party claims can be expensive and lengthy, and thus, the buyer's use or resale of the goods can be hampered for a while.²⁰ Considering this, the Secretariat Commentary suggests that the seller should bear the burden of investigating the claim and satisfying the buyer regarding the nature of the claim.²¹

Third-party claims generally arise in the seller's place of business. With due regard to the domestic law rules of this country, it is difficult for the buyer to deal with these claims.²² Kröll explains the point that as third-party claims are generally governed by the rules of the law where the seller has his place of business, thus, as the buyer unfamiliar with this law, it is costly for him to deal with third-party claims.²³ For these reasons, the burden of establishing the legal nature of ill-founded third-party claims is placed on the seller. Even ill-founded claims asserted by the buyer give rise to the seller's liability under the article.

¹⁷ Kröll, 'Article 41' (n 9) 638; Fritz Enderlein and Dietrich Maskow, *International Sales Law: United Nations Convention on Contracts for the International Sale of Goods: Convention on the Limitation Period in the International Sale of Goods* (Oceana Publications 1992) 165, 180; Paul Katzenberger, 'Contractual Liability of the Seller Due to Third Parties' Patents and Other IP Rights under German Law and the UN Convention on Sales Contracts' in Wolrad Prinz zu Waldeck und Pyrmont and others (eds.) *Patents and Technological Progress in a Globalized World* (Springer 2009) 581. For the national laws see SGA s12, Canadian Ontario Sale of Goods Act s.13, German BGB Article 433, Turkish Code of Obligations (Law No 6098) Article 214.

¹⁸ See Secretariat Commentary, 'Article [41]' in *Official Records* (n 5) 35, para 3; Schwenger, 'Article 41' (n 11) 685; Enderlein (n 6) 180; Honnold, *Uniform Law* (n 10) 386. Honnold highlights that the 'normal expectation' of the buyer is not to purchasing a lawsuit.

¹⁹ Schlechtriem (n 4) 6-31.

²⁰ See Secretariat Commentary 'Article [41]' (n 18) 35, para 3.

²¹ *Ibid* 36, para 4.

²² Honnold, *Uniform Law* (n 10) 386-387; Kröll, 'Article 41' (n 9) 637.

²³ Kröll, 'Article 41' (n 9) 639.

In engaging with frivolous claims, commentators have questioned what should be the seller's liability. Some authors hold the same view with the Secretariat Commentary which places frivolous claims outside the scope of the article.²⁴ However, it needs to be asked how it will be decided at the first stage that third-party claims raised against the buyer are frivolous. Even though a threshold for determining frivolous claims has not been expressly drawn out within the literature and case law, generally if it is clear and easily understandable from the facts of the situation that the claim raised by a third-party was made without any legal justification and lacks a 'certain degree of seriousness',²⁵ the claim can be accepted as frivolous in nature.²⁶

Although this threshold can be acceptable, another question that arises is which party will investigate the claim and decide on its true nature. Nevertheless, it is quite challenging for the seller to convince the buyer that a third-party has made a frivolous claim, in order to avoid litigation. There is always the risk that the parties will not agree on whether the claim is frivolous. In addition to difficulty of establishing a threshold between well-founded and frivolous claims, because the CISG favours protecting the buyer's expectation that he is not buying a lawsuit,²⁷ and the seller is in a much better position than the buyer to know about the goods than the buyer, it is arguable that the seller should bear all types of third-party claims. This view is also supported by Saidov who believes that it 'fills a considerable gap in the legal protection that Article 41 was indented to provide to the buyer.'²⁸ He argues that since unfounded claims will not constitute substantial damage or fall within the limits of the requirements of damages rules such as foreseeability, or cause a fundamental breach which can result in avoidance, any unfavourable results of holding the seller liable for any claims can be prevented at the remedial stage.²⁹

Whether third-party claims over goods constitute a fundamental breach which allows the buyer to avoid the contract is a separate discussion.³⁰ It is acknowledged that if the seller defeats the claim without unreasonable delay, there would not be a detriment that causes a fundamental

²⁴ Peter Schlechtriem and Petra Butler, *UN Law on international sales: The UN Convention on the International Sale of Goods* (Springer 2009) 133; See Rolf Herber and Beate Czerwenka, *Internationales Kaufrecht, Kommentar zu dem Übereinkommen der Vereinten Nationen vom 11. April 1980 über Verträge über den internationalen Warenkauf* (Beck 1991) Article 41 cited in Peter Huber and Alastair Mullis, *The CISG: A New Textbook for Students and Practitioners* (Sellier European Publishers 2007) 172; See Axel Metzger, 'Seller's Liability for Defects in Title According to Articles 41 and 42 of the CISG' in Ingeborg Schwenzer, Yeşim Atamer, Petra Butler (eds) *Current Issues in the CISG and Arbitration* (Eleven International Publishing 2014) 195, 198 footnote 15.

²⁵ Herber/Czerwenka in Schwenzer Article 41 (n 11) 685, footnote 48.

²⁶ Schlechtriem (n 4) 6-31. See also Schwenzer, 'Article 41' (n 11) footnote 48.

²⁷ Honnold, *Uniform Law* (n 10) 386.

²⁸ See Saidov (n 16) 194-195.

²⁹ *Ibid* 195.

³⁰ See Article 49. For a detailed analysis of the issue see '4.5.2.1./2. Establishing Fundamental Breach for Article 42.'

breach.³¹ However, because the litigation to defeat third-party claims may be lengthy, the buyer may be deprived of use or resale of the goods in question for an uncertain period of time.³² Under these circumstances, denying the possibility of avoidance would put an unreasonable burden on the buyer who does not ‘purchase a lawsuit’.³³ Consequently, the risk of lengthy litigation can be considered as a fundamental breach on the buyer’s side.³⁴ It is not crystal clear that frivolous claims can also amount to avoidance when the conditions are met. In the literature, it has been accepted that unless the seller defeats the claim without significant delay, frivolous claims do not constitute a fundamental breach.³⁵ Conversely, if there will be lengthy litigation processes which hamper the buyer’s use or resale of goods, it can be claimed that the buyer’s right to avoid the contract should also be admitted for frivolous third-party claims.³⁶

3.2.1.3. Relevant Time

The time when the goods must be free from any third-party right is of importance. The decisive moment is the time of the delivery of the goods, which is indicated by the article as the seller must ‘deliver’.³⁷ It should not be assumed that the third-party should raise his rights or claims before or at the time of the delivery of the goods., but the rights or claims can be asserted after the delivery; however, third-party rights or claims should already be present at the time of the delivery.³⁸ Any rights or claims which come into existence after the delivery will not result in a breach of Article 41. Also, under Article 43, the buyer is under an obligation to notify the buyer about third-party claims within a reasonable time.³⁹

³¹ Schwenger, ‘Article 41’ (n 11) 685; Kröll, ‘Article 41’ (n 9) 639; Metzger (n 24) 198; Honnold, *Uniform Law* (n 10) 387.

³² Secretariat Commentary, ‘Article [41]’ (n 18) 36. Footnote 2 stated that: ‘Although the seller may ultimately free the goods from the third person's claim by successful litigation, this could seldom be accomplished within a reasonable time from the buyer's point of view.’

³³ Honnold, *Uniform Law* (n 10) 386.

³⁴ See Schlechtriem (n 4) 6-32.

³⁵ See Kröll, ‘Article 41’ (n 9) 639; Schwenger, ‘Article 41’ (n 11) 685.

³⁶ There is a risk that the buyer and third-party can act together in order to release the buyer from his contractual obligations and to avoid the contract. For these situations, the seller can apply remedies available to him and sue the buyer for his bad faith. However, on the ground that it is possible to collude, innocent CISG buyers who want to use or resell the goods in question immediately should not carry all the burden or damage resulting from third-party’s frivolous claims.

³⁷ Schwenger, ‘Article 41’ (n 11) 687; Kröll, ‘Article 41’ (n 9) 641.

³⁸ *Ibid*; Huber/Mullis (n 24) 173.

³⁹ See ‘3.2.2.3. Notice Requirement’.

3.2.2. Third-Party Intellectual Property Rights

Article 42 was included in the CISG because of the possibility that problems may begin to occur as a result of the relationship between IP and sales law, given that IP began to gain importance and goods became subject to IPRs.⁴⁰ Article 42 reads:

(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.

As will be examined in detail below, the predecessor of the CISG did not draw a distinction between the types of third-party rights this was because any rights or claims asserted by third-parties were covered by the counterpart article of Article 41 which was Article 52 of The Uniform Law on the International Sale of Goods (ULIS).⁴¹ The complexity of IP law and territorial nature of IPRs led the drafters to introduce restrictions on the liability, which cannot exceed the limits of the warranty reasonably undertaken by the seller.⁴² While these limitations are examined in this section, also the wording of Article 42 causes some complexities for its application, and this requires attention.⁴³ Kröll notes that despite the importance of IPRs in the

⁴⁰ See Honnold, *Uniform Law* (n 10) 392; Kröll, 'Article 42' in Stefan Kröll, Loukas Mistelis and Maria del Pilar Perales Viscasillas (eds) (n 9) 648; Schlechtriem/Butler (n 24) 135.

⁴¹ The Uniform Law on the International Sale of Goods (ULIS) and the Uniform Law on the Formation of Contracts for the International Sale of Goods (ULF) are deemed as the predecessor of the CISG on the ground that the CISG was drafted after studies on these conventions.

⁴² Kröll, 'Article 42' (n 40) 649-650; Schwenger, 'Article 42' (n 6) 693.

⁴³ The phrases which are used in Article 42 to limit the seller's liability cause more problems and result in divergent opinions on the threshold of liability. See Honnold, *Uniform Law* (n 10) 392; Joseph J. Schwerha IV, 'Warranties against Infringement in the Sale of Goods: A Comparison of U.C.C. § 2-312(3) and Article 42 of the U.N. Convention on Contracts for the International Sale of Goods' (1995) 16 *Michigan J. Int'l L.* 441; Anthony VanDuzer, 'A Seller's Responsibility for Third-party Intellectual Property Claims: Are the UN Sales Convention Rules Better?' (2001) 4 *Canadian International Lawyer* 187; Allen M. Jr. Shinn, 'Liabilities under Article 42 of the UN Convention on the International Sale of Goods' (1993) 2 *Minn. J. Global Trade* 115.

‘information age’, Article 42 only proposes a ‘rudimentary regime’ for this delivery duty,⁴⁴ becomes a key point of criticism and one which deserves special analysis.

This thesis examines Article 42 in relation to the increasing importance of IP law and its inextricable intertwinement with the goods. As such, the current and potential problems that the parties of a sales contract governed by the CISG may encounter are illustrated with the aim of proposing solutions to the interpretation and application of the article to these problems. The analysis is presented in three sections. Firstly, the historical development of the article is illustrated in order to understand why a differentiation between the third-parties’ general rights and IPRs was created. Then, the scope of the article is examined, considering IPRs problems that the parties may encounter; and the requirements for exclusion from liability are also discussed. Finally, the notice requirement under Article 43 is analysed.

3.2.2.1. Historical Background of Article 42

When the progress of the CISG is examined, two international sales agreements attract attention, namely, the Uniform Law on the International Sale of Goods (ULIS) and the Uniform Law on the Formation of Contracts for the International Sale of Goods (ULF), which came into force as a result of unification attempts for international commercial law.⁴⁵ However, these instruments did not achieve worldwide success due to its failure to reflect the concerns and perspectives of the countries, and lack of objectivity on the general principle,⁴⁶ so they were signed by only a limited number of countries.⁴⁷ Thus, a Working Group was appointed by the UNCITRAL to consider a new text for uniform sales law. Before the CISG was concluded, the UNCITRAL Working Group produced two drafts in 1977; the Commission then combined these into one document and published it as the 1978 Draft Convention on Contracts for International Sale of Goods, and finally, the CISG was adopted at the 1980 Vienna Diplomatic Conference.⁴⁸ Because the CISG came into existence after the revision of the former

⁴⁴ Kröll, ‘Article 42’ (n 40) 649.

⁴⁵ Full texts of ULIS and ULF are available at <<http://www.cisg.law.pace.edu/cisg/text/antecedents.html>> accessed 8 June 2017.

⁴⁶ See Stephen Bainbridge, ‘Trade Usages in International Sales of Goods: An Analysis of the 1964 and 1980 Sales Conventions’ (1984) 24 Virginia Journal of International Law 619; László Réczei, ‘The Rules of the Convention Relating to Its Field of Application and to Its Interpretation’ *Problems of Unification of International Sales Law, Working papers submitted to the Colloquium of the International Association of Legal Science, Potsdam, August 1979*, (Oceana Publications 1980) 53 <<https://www.cisg.law.pace.edu/cisg/biblio/reczei2.html>> accessed 19 November 2018.

⁴⁷ Ibid. Because of not taking advantage of acceptance by countries who are the important actors in international trade causes the failure of these two unification attempts. The signatory countries were: Gambia, Germany, Israel, Italy, Luxembourg, the Netherlands, San Marino and Great Britain.

⁴⁸ See Chronological Record of Proceedings available at <<http://www.cisg.law.pace.edu/cisg/chronology/chrono42.html>> accessed 12 June 2017; Summary of UNCITRAL Legislative History of the CISG available at <<http://www.cisg.law.pace.edu/cisg/linkd.html>> accessed 12 June 2017.

UNCITRAL conventions, the relevant articles of the ULIS and the ULF can be employed in interpreting articles of the CISG.⁴⁹

The ULIS Article 52 requires the seller to remove any third-party rights and claims within a reasonable time or deliver other goods which are free from these rights to the seller unless the buyer agreed to accept the goods subject to these rights or claims.⁵⁰ The article was placed in Section III under the heading of ‘Transfer of Property’.⁵¹ In the Progress Report of the Working Group, it was underlined that the purpose of Article 52 was ‘the guarantee of title by the seller’ despite its heading ‘transfer of property’.⁵² However, in the CISG Article 42 is placed under the heading ‘conformity of goods and third-party claims’. It is argued here that this is a more suitable choice in the context of the article regarding that the CISG excludes the property issues within its scope.

Article 52 did not contain any express and specific reference to third-party IIP rights and claims. When the CISG’s drafting process is examined, it can be seen that there was no significant study on or development of Article 52 in relation to IIP until the preparation of the 1977 UNCITRAL Sales Draft at the tenth session.⁵³ A special working Group was established to consider cases where third-party IIP rights had arisen, and this Group proposed a text to deal with these issues,⁵⁴ which was close to the CISG Article 42.⁵⁵ At the same time, some representatives raised concerns about the complexity of the IPRs and were against including this issue within the scope of the CISG.⁵⁶ Beline argues that most domestic laws provide similar solutions for third-party rights and claims, adds that they carry ‘a certain degree of

⁴⁹ See Article 32 of Vienna Convention for Law of Treaties. It states that ‘recourse may be had to supplementary means of interpretation including the preparatory work of the treaty.’ Enderlein (n 6) 139-142; John O. Honnold, ‘Uniform Laws for International Trade: Early Care and Feeding for Uniform Growth’ (1995) 1 *International Trade and Business Law Journal* 1, 5. Throughout the drafting process, the numbers of the articles were changed on the ground of deletion, reorganisation of the articles or addition of new ones. To prevent any inconvenience, the reader should know that the issue was discussed under articles 25 and 26 in 1978 UNCITRAL Sales draft, and articles 39 and 40 in Diplomatic Conference.

⁵⁰ ULIS Article 52 <<http://www.cisg.law.pace.edu/cisg/text/ulis.html>> accessed 22 October 2017.

⁵¹ André Tunc, ‘Commentary on the Hague Conventions of the 1st of July 1964 on International Sale of Goods and the Formation of the Contract of Sale’ <<http://www.cisg.law.pace.edu/cisg/biblio/tunc.html>> accessed 22 June 2017.

⁵² Honnold, *Documentary History* (n 7) 107, see C.41 note 129. See *UNCITRAL Yearbook Volume III: 1972* (1973; A/CN.9/62/Add.2) 68, notes 71-72, and 129.

⁵³ See Honnold, *Documentary History* (n 7) 226-318; See A/32/17 ‘Report of the United Nations Commission on International Trade Law on the Work of its Tenth Session’ in *UNCITRAL Yearbook Volume VIII: 1977* (1978; A/CN.9/SER.A/1977; E.78.V.7).

⁵⁴ At the beginning IPRs issues were covered by Article 25(2) and (3), after the proceedings the Committee decided upon the separation of Article 25 into two articles.

⁵⁵ Honnold, *Documentary History* (n 7) 333, note 211.

⁵⁶ Delegates of Nigeria and Ghana were opposed to insert a separate rule regarding to third-party’s intellectual and industrial property rights and claims. See *UNCITRAL Yearbook Volume IX: 1978* (1981; A/CN.9/SER.A/1978; E.75.V.2) 6, note 23, See Summary Records of the Plenary Meetings, 7th Plenary Meeting (UN Doc A/CONF.97/SR/7) in *Official Records* (n 5) 208, note 75. See Beline (n 6) 6.

uniformity.’⁵⁷ He claims that domestic law could be applied to these cases by virtue of Article 7(2) rather than covering IIP rights within the scope of a uniform international law.⁵⁸ Also, one concern raised on the substance of the article was that the article caused the breach of international conventions for IPRs.⁵⁹

German scholars argued that industrial property claims were a ‘defect in title’.⁶⁰ Nonetheless, authors like Honnold and Tunc argued that the ULIS Article 52 did not cover the cases where IPRs were claimed.⁶¹ The delegates of the Diplomatic Conference were of the view that third-party IPRs constitute a separate case; hence, two different articles should be drafted under the Convention.⁶² From the legislative history, it can be clearly seen that the drafters wanted to draw a distinction between third-party IPRs and rights other than IPRs that are generally related to ownership rights. However, they did not explicitly indicate the justification behind this difference. The remarks of the Chairman of the 17th Meeting can shed light on this issue, which was that “rights other than those based on industrial or intellectual property were subject to a different régime and less protection was given to the buyer in the case of rights based on industrial or intellectual property”.⁶³

As IP law relates to intangible property rights, which consists of registered and unregistered types, and lacks a universal definition or protection system, and in this context, it is not an easy task to deliver goods free from IPRs in every jurisdiction.⁶⁴ Also, based on their territorial nature (explained in 3.2.2.2 below), IPRs are protected where they have been granted, and each jurisdiction has its own IP law according to which protectable subject matter, the scope of IPRs protection and infringing activities are determined.⁶⁵ Because of the IPRs’ territorial nature,

⁵⁷ Beline (n 6) 5.

⁵⁸ *Ibid.*

⁵⁹ *UNCITRAL Yearbook Volume VIII: 1977* (n 53) 41, note 217; 7th Plenary Meeting (n 56) note 76.

⁶⁰ Schwenger ‘Article 42’ (n 6) 693. See Enderlein (n 6) 180; Beline (n 6) 6. He thinks that any problems regarding IIP rights could have been solved by ULIS Article 33 which is for non-conformity of the goods.

⁶¹ See Honnold, *Documentary History* (n 7) 393; Tunc Commentary (n 51). In the Progress Report at 1973, two observer noted that the article did not cover ‘claims’ based on industrial property which should have been treated under ULIS Article 33 for non-conformity. Progress Report of the Working Group on the International Sale of Goods on the Work of Its Forth Session (New York, 22 January-2 February 1973) (AjCN.9j75) note 144, Working Group Session (n 32) p 151 note 144.

⁶² For the countries supported to include IPRs issue within the CISG, see *UNCITRAL Yearbook Volume VIII: 1977* (n 53) p110 note 6, p116 note 10, p130 note 18. Summary Records of Meetings of the First Committee, 17th meeting (n 5) notes 22-24, note 33 ‘Mr. REISHOFER (Austria), supported by Mr. ROGNLIEN (Norway) thought it important to draw a clear distinction between the two types of rights or claims referred to in the Convention.’ See Honnold, *Documentary History* (n 7) 393-394, also footnote 6. ‘A consensus developed that the ULIS approach was not adequate and that the problem was too important to be left to diverse national rules and to the uncertainties of private international law.’

⁶³ Summary Records of Meetings of the First Committee, 17th meeting (n 5) 325, note 49 and 51.

⁶⁴ See Chapter 2.

⁶⁵ Sophie Neumann, ‘Intellectual Property Rights Infringements in European Private International Law: Meeting The Requirements of Territoriality and Private International Law’ (2011) 7 *Journal of Private International Law* 583, 589.

and the existence of unregistered IPRs, it is not straightforward to know or search every potential IPR claim that can be made in relation to the goods. However, the seller's capability to foresee third-party IPRs should not be disregarded. In my opinion, the 'less protection' argument was made with reference to the wording of Article 52(1). The article establishes the availability of the remedies to the buyer was subject to the 'seller's knowledge' with the wording 'unless the seller already knows.'⁶⁶ I believe that this knowledge requirement reduced the application of Article 52 by the buyer because it is not always possible to hold actual knowledge of IPRs in certain countries. There are situations when the seller does not actually know that there is an IPR over the goods, but can nevertheless reasonably foresee that there might be IPRs. For example, in the case of well-known trademarks,⁶⁷ the seller cannot claim that he had no knowledge about this trademark.⁶⁸ The Chairman's remark, the consideration of the nature of IPRs', such as their territoriality, the lack of universal protection, and the existence of certain rights without registration all make it possible to identify that the delegates also acknowledged the difficulty of providing a worldwide guarantee for IPRs.⁶⁹ Because it needs to bear in mind, that IPRs are based on national rules; therefore the seller, in that case, would have a greater awareness of their national rules compared to other countries.

Similarly, Kröll believes that it is not suitable to follow the approaches employed by the national sales law and the ULIS for third-party IPRs problems that may occur in international sales as these instruments do not distinguish defects in title and defects resulting from IPRs.⁷⁰ While they were willing to protect the buyer from the encumbrances created by these rights, they also sought to create a liability within limits which are foreseeable by the seller.⁷¹ On the contrary, Beline supported the application of domestic laws in the belief that this would provide 'greater predictability.'⁷² However, I argue that rather than leaving the problem to be dealt with by domestic laws that share certain similarities, providing an international rule which carries the common principles applied by most domestic laws would bring more predictability and

⁶⁶ The ULIS Article 52 (1): Where the goods are subject to a right or claim of a third person, the buyer, unless he agreed to take the goods subject to such right or claim, shall notify the seller of such right or claim. Unless the seller already knows thereof, and requests that the goods should be freed therefrom within a reasonable time or that other goods free from all rights and claims of third persons be delivered to him by the seller.

⁶⁷ The well-known trademark doctrine gives an extra-territorial effect to the trademark, according to this doctrine, 'well-known marks' can also be protected where they have not been registered. See Graeme B. Dinwoodie, 'Trademarks and Territory: Detaching Trademark Law from the Nation-State' (2004) 41 *Hous. L. Rev.* 885.

⁶⁸ *Eximin v Textile and Footwear Supreme Court of Israel* 22 August 1993 (PACE).

⁶⁹ Kröll, 'Article 42' (n 40) 649.

⁷⁰ *Ibid* 650. On the same account see Secretariat Commentary, 'Article [42]' in *Official Records* (n 5) 36.

⁷¹ *Ibid* 649.

⁷² Beline (n 6) 3.

eliminates any difference between those laws. For the reasons presented above, the distinction between third-party IPRs and those based on IIP was created.

Also, the use of both the terms ‘industrial and intellectual property’ was discussed during the drafting process, it was also pointed out that the term ‘intellectual property’ also covers ‘industrial properties’. As such, there was no need to highlight again ‘industrial property’ within the text of the article.⁷³ Nevertheless, the insertion of the term ‘industrial property’ was defended on account of the potential confusion between the two terms.⁷⁴ The need for clarity can be explained on the grounds that not every country has recognised IP and coherent IP law.⁷⁵ In some national laws, the legal classification of IPRs can be divided into two groups as intellectual property and industrial property. Therefore, contrary to the real intention of the drafters, rights protected by industrial property law rules could be excluded from the scope of the article.⁷⁶ Despite this, it can be supported that IP covers industrial properties; this insertion of the term should be considered within the situations and facts of the time when the draft was concluded.

As a result, the Special Working Group drafted the article with the aim of determining the limits of the seller’s liability for third-party IPRs and the relevant IPR law according to which the seller’s liability would be determined.⁷⁷ Norway proposed that the liability should be determined in accordance with the law of the state where the seller has his place of business.⁷⁸ The International Chamber of Commerce (ICC) stated that: ‘[t]he seller cannot, as a general rule, take such responsibility as to administrative regulations or industrial property rights in the country of the buyer.’⁷⁹ All these concerns can be understandable given the lower awareness of IP law at the time the Convention was drafted and drafters’ fear of expanding the seller’s liability beyond the foreseeable limitations and the scope of the CISG that domestic law can hamper the aim of unification.⁸⁰ However, it should not be forgotten that third-party IPRs infringements can often occur where the goods subjected to a registered/protected IPRs are sold or used, this is because in an international sale the buyer generally uses or resells the goods in question in a state different to the one where the seller’s place of business is located.

⁷³ Summary Records of Meetings of the First Committee, 17th meeting (n 5) 325, note 46.

⁷⁴ Honnold, *Documentary History* (n 7) 334 note 219.

⁷⁵ Ibid; Secretariat Commentary, ‘Article [42] (n 70) 36, footnote 1.

⁷⁶ See Christian Rauda and Guillaume Etier, ‘Warranty for Intellectual Property Rights in the International Sale of Goods’ (2000) 4 *Vindobona J. Intl’L Com. L. & Arb.* 30.

⁷⁷ Honnold, *Documentary History* (n 7) 333, note 211.

⁷⁸ *UNCITRAL Yearbook Volume VIII: 1977* (n 53) 121, note 18. On the same account, Finland suggested either deletion of third-party IPRs from the scope of the Convention or, determining the liability based upon the law of State which the seller’s place of business is located.

⁷⁹ Ibid 139 note 25.

⁸⁰ See *UNCITRAL Yearbook Volume VIII: 1977* (n 53) 147 note 4.

Therefore, it should be accepted that the territorial limitations that are imposed by the article for determining the law of the state where third-party IPRs have arisen are logical.⁸¹

As a result of the examination of the historical progress of the CISG Article 42, it can be observed that the drafters foresaw that IP law would gain great importance and awareness worldwide. However, the strict liability under Article 41 was not fit for the IPRs which is territorially limited. Considering this fact, the drafters supported to view that the liability for third-party IPRs should be limited. Thus, in international sales, the buyer's enjoyment of the goods in question could be hampered by these rights so even though there were objections against dealing with these cases under the CISG, they adopted Article 42.⁸² However, the questions about how these cases should be handled and what remedies could be provided to the buyer in accordance with the requirements of the situations were not discussed properly. Hence, the answers to these questions are still the subject of discussion in the literature.⁸³

3.2.2.2. Liability Requirements

The drafters did not desire to impose strict liability upon the seller because of the difficulty in providing a worldwide warranty for IPRs which are territorial in nature.⁸⁴ Despite various international conventions and multilateral agreements, a universal IPRs grant or protection system are not available, and so, the protection of IPRs may be available in one country but not another.⁸⁵ While a work, design, invention or sign may be protected by one or by a few countries (subject to an international or regional registration system), the same subject matter could not have been recognised as an IPR in other jurisdiction. Consequently, dealing with certain goods in a particular country may not cause any infringement because that there is no relevant IPRs granted in that country, whilst in another country, the same goods can cause infringement due to the protection of IPRs that are related to these goods. It is, therefore, difficult for a seller to foresee that the goods he sold would not cause any infringement whichever country these goods entered.

In addition to the territorial limitations, some IPRs do not require registration in order to be granted, such as unregistered design rights and trademarks that are protected in accordance to the rules of passing off, trade secrets, and copyright. Without any registration, information

⁸¹ On the same account see Kröll, 'Article 42' (n 40) 650.

⁸² See Ibid 648.

⁸³ See Ibid 649; Honnold, *Uniform Law* (n 10) 393. 'In short, the 1964 uniform law did not clearly face problems of considerable importance and difficulty.'

⁸⁴ The term 'warranty' in here used as 'guarantee' which is provided by the seller on the account that the goods he delivered will be free from any third-party IPRs.

⁸⁵ See '2.2.2. The Scope of IPRs'.

about these IPRs are not readily accessible, and a searching tool is not available. In light of this, it is challenging for the seller to search for these possible IPRs over the goods or anticipate that IPRs over the goods may exist either in a certain country or worldwide.

For these reasons, the seller's obligation needs to be within the limits or capacity of the seller to be able to take steps and solve any problems with the goods resulting from third-party IPRs. Accordingly, the drafters imposed limitations on the liability including the territorial limitations that establish the territories where the seller is liable for third-party IPRs and the seller's knowledge of IPRs.⁸⁶

Overall, concerning the nature of IPRs, Article 42 sets requirements which must be met in order to hold the seller liable for third-party IPRs to prevent imposing strict liability which is problematic in the sense of territoriality of IPRs. These are as follows: (1) third-party rights and claims must be ones based on IIP; (2) the seller must have knowledge of such claims; (3) the territorial restrictions are determined by Article 42 (1)(a) and (b); (4) the relevant time for the seller's knowledge; liability is excluded if the buyer knew or could not have been unaware of these rights. These limitations are analysed in the following subsections.

1. Third-Party Rights and Claims Based on IIP Rights

In order to invoke liability under Article 42, there should first be third-party rights or claims which must be based on IIP over the goods. Similar to Article 41, in addition to the existing third-party rights their 'claims' are also covered by Article 42. Hence, by analogy, the analysis of the liability which arises from the 'claims' can also be applied to this article.⁸⁷ Concerning these claims, it is suggested that the seller better knows the goods in question than the buyer, hence, 'it is part of the seller's sphere of risk to deal with the third-party rights and claims in such cases'.⁸⁸ Upon the basis of the seller's knowledge of the goods and its components, it is believed that he can deal with the claims efficiently, and in terms of the economic analysis, the information costs of the third-party IPRs over the goods in question can be lower for the seller rather than the buyer. Thus, the burden of avoidance from the infringements can be placed upon the seller.⁸⁹ Furthermore, it is argued that if the claims appear to be ill-founded the seller is protected at the remedial stage based on the failure to comply with further requirements which are imposed by the remedial rules.⁹⁰

⁸⁶ See the CISG Article 1(a) and (b).

⁸⁷ See '3.2.1.2. Third Party Claims'

⁸⁸ *CD media case Oberster Gerichtshof (Austria)* 12 September 2006 (PACE).

⁸⁹ Richard A. Posner, *Economic Analysis of Law* (5th Ed, Aspen 1998) 114; Also see Metzger (n 24) 203.

⁹⁰ Kröll, 'Article 42' 650; Saidov (n 16) 195.

By placing the claims within the seller's sphere of liability raises the question whether this would constitute an extension of the seller's liability under Article 42 and destroys the balance of parties' interest to the detriment of the seller.⁹¹ As argued previously,⁹² it would be unreasonable for a buyer to wait until the discovery of the real nature of the claim and bear the risk of being sued. Also, until the court decides upon the validity of the claim, the buyer can stop selling or using the goods he purchased in order to avoid further losses.⁹³ There is a battle between two interests, one is the buyer's interest in not entering into a lawsuit, and the seller's interest in not being responsible for 'random claims'.⁹⁴ Leaving the third-party claims within the seller's sphere of risk does not automatically make the seller liable for those claims. There are other requirements should be met such as the seller's knowledge, or the seller can prove that the claim is ill-founded.⁹⁵ The point of covering the 'claims' within the scope of the article is the availability of the seller's assistance when the buyer defends himself against the third party. On the ground that the seller holds the knowledge about the goods in question, he can provide, *inter alia*, the records of the origin of the goods or the license agreement between the right holder. By helping the buyer in the litigation related to IPRs infringement, the seller can fulfil his obligation under Article 42.

While the claims are covered based on the reasons presented above, the issue of whether every claim triggers the liability is open to discussion. Most authors hold the view that even unfounded claims fall within the seller's sphere of risk because the seller can determine whether the claim is in bad faith or not.⁹⁶ However, Schwerha argued that only well-founded claims and those that are asserted in good faith should be accepted within the scope of Article 42 because he believes that the buyer can easily breach his contracts by colluding with someone to assert claims.⁹⁷ If this situation occurs, the buyer cannot claim the seller's breach according to Article 80.⁹⁸

⁹¹ Saidov (n 16) 217; VanDuzer (n 43) 190.

⁹² See '3.2.1.2. Third Party Claims'.

⁹³ See *Zeno Corp v BSM-Bionic Solutions Management GmbH* [2009] EWHC1829 (Pat). In this case, Boots was selling Zeno products until he received a letter from another company who alleged that Zeno infringed their patent. The present case was in between Zeno and BSM to learn whether the patent claim was valid, until the claim is solved Boots stopped selling the products.

⁹⁴ Saidov (n 16) 195.

⁹⁵ Ibid 195; Kröll, 'Article 42' (n 40) 650.

⁹⁶ Kröll, 'Article 42' (n 40) 650; Schwenger, 'Article 42' (n 6) 685; Rauda/Etier (n 76) 38; Ruth M Janal, 'The seller's Responsibility for Third Party Intellectual Property Rights Under the Vienna Sales Convention' in Camilla B. Andersen & Ulrich G. Schroeter (eds.) *Sharing International Commercial Law across National Boundaries: Festschrift for Albert H. Kritzer on the Occasion of his Eightieth Birthday* (Wildy, Simmonds & Hill Publishing 2008) 203, 209.

⁹⁷ Schwerha (n 43) 457.

⁹⁸ See Schwenger, 'Article 42' (n 6) 686.

The question of whether there is a distinction between the claims is particularly crucial concerning frivolous claims; however, the literature does not provide a definitive answer to this question. Even though authors support including frivolous claims based on the seller's superior knowledge, it is not certain whether the seller holds strictly superior knowledge for every case. For example, if the seller is a manufacturer of certain goods and therefore holds a patent whereas the buyer is a retailer, it is supposed that the seller has superior knowledge of the goods, and can, therefore, more easily assess the claim.⁹⁹ While this may not apply in every situation, this general outline does nonetheless provide insight into who will bear the risk of being sued or deprived of using/reselling the goods in question.

As is discussed above, the difficulty that arises is that it is not always easy to decide on the validity of the claim at first sight, as Janal correctly argues 'distinctions between frivolous claims and claims which are 'solely' unfounded lie in the eye of the beholder.'¹⁰⁰ In taking this into account, the seller appears to be in the best position to determine the nature of the claim. The rationale being that the seller's liability is to deliver the goods free from any third-party IP rights and claims, and he needs to defeat these claims. Commentators have also noted that it is unlikely that the seller 'knew or could not have been unaware' of these rights and claims 'at the time of the conclusion of the contract', and frivolous claims should be regarded as unforeseeable by the seller, and his liability would not have been raised.¹⁰¹

In terms of liability for frivolous claims, Beline suggested that the buyer would demand the costs related to the claim from the third-party according to domestic procedural law.¹⁰² Instead of waiting for the seller to solve the issue, the buyer claims the costs from the third-party. Beline believed that this solution would not result in the seller's liability being extended. This argument undermines the idea that the buyer's interest in not entering into litigation should be taken into account when discussing the inclusion of 'claims' within the article. As has already been noted, it is the seller's delivery obligation to provide goods that are free from any third-party claims, and based on this obligation he should provide assistance for the dismissal of any claims.

In my opinion, third-parties' frivolous IP claims should result in the seller's liability under certain conditions.¹⁰³ Given that the litigation process for discovering the exact nature of claims

⁹⁹ VanDuzer (n 43) 192; Saidov (n 16) 217.

¹⁰⁰ Janal (n 96) 209.

¹⁰¹ Saidov (n 16) 217; Janal (n 96) 209; Schwenger, 'Article 42' (n 6) 697.

¹⁰² Beline (n 6) 7.

¹⁰³ When the drafting history is examined, it can be seen that one representative expressed that unfounded claims should have led the seller's liability, even resulted in avoidance of the contract. The view was highlighted based on the possibility that an 'outstanding claim' could result in adverse impacts on the use of

may last for years, the buyer's capacity to use or resell the goods can be restricted for an indefinite period of time. In that regard, it should be accepted that third-party IPR claims cause serious risk of damage for the buyer, which may be acknowledged as a 'substantial detriment' of enjoyment of the goods, which may lead the buyer towards claiming 'fundamental breach'.¹⁰⁴

Furthermore, it is not required that a claim to be brought against the buyer or the seller in order to apply the seller's liability under Article 42.¹⁰⁵ In some situations, there is no claim by a third-party, but there is nevertheless a considerable risk of encountering an action over the goods in the future. This considerable risk may be an ongoing IP conflict between the seller or his suppliers and a third-party who claims his IPRs over the goods in question. Besides this, if it is apparent that any defect which is observed by the buyer could cause an infringement of third-party IPRs, there is no need to wait for a claim raised by a third-party. These potential risks in the goods may affect the buyer's business and prevent him using or reselling the goods. The buyer who does not want to deal with third-party IPR infringements in the future can demand clarification of the situation from the seller. It is accepted that the buyer can claim a breach of duty by the seller without waiting for a claim to be raised by a third-party.¹⁰⁶

However, Saidov has criticised this approach as altering the balance between the parties' interests and extending the seller's liability and highlights that 'mere suspicion' of the possible raising of a claim should not be considered to invoke Article 42.¹⁰⁷ According to him, the buyer can invoke the remedies for anticipatory non-performance including avoidance if it is clear that the seller will commit a fundamental breach.¹⁰⁸ I agree with the view excluding mere suspicion from the scope of 'claims' referred in Article 42. However, applying anticipatory breach rules rather than claiming information on or clarification of situation based on the seller's liability under Article 42 when it is apparent that claim will be raised, also sets a high threshold and seems more cumbersome. If the claim causes such considerable threat to the buyer even before its assertion by a third-party that it meets the requirement of anticipatory non-performance or

goods if the buyer required to evidence the validity of the claim. See UNCITRAL YB *Volume IV: 1973* (1974; A/CN.9/SER.A/1973; E.74.V.3), 73, para 142.

¹⁰⁴ See '4.5.2.1./2. Establishing Fundamental Breach for Article 42.' Cf. See Kröll, 'Article 42' (n 40) 650. Kröll believes that the 'unjustified claims' cannot cause a fundamental breach 'in general'. Akin to this view, it can be grasped that 'frivolous claims' also do not constitute a fundamental breach for him.

¹⁰⁵ Kröll, 'Article 42' (n 40); J. Anthony VanDuzer. 'The Adolescence of the United Nations Convention on Contracts for the International Sale of Goods In Canada' (The Canadian Bar Association's International Law Section Annual Conference, Ottawa, May 2001) <<http://www.cisg.law.pace.edu/cisg/biblio/vanduzer2.html>> accessed 20 June 2017.

¹⁰⁶ Kröll, 'Article 42' (n 40) 650; Janal (n 96) 211-212.

¹⁰⁷ Saidov (n 16) 214-215.

¹⁰⁸ Ibid 215.

breach, it is highly likely that the claim can be covered by Article 42. Rauda and Etier strengthen the reasoning for applying of Article 42 when there is no right or claim asserted by describing the potential conflict that may be raised by a third-party as the ‘Sword of Damocles hanging over the buyer’s head.’¹⁰⁹

This view is supported by CISG case law. The *CD media* case is a prime example of the situation where a buyer did not wait for a third-party to approach him in order to apply Article 42.¹¹⁰ In the *CD media* case, the sale of blank CDs was conducted between an Austrian buyer and a German seller who was owned by a Taiwanese parent company (TPC). The TPC produced and sold the CDs according to a licence agreement signed with another company. Unfortunately, a disagreement on the licence fee arose which resulted in the termination of the licence contract between the licensor and TPC and litigation commencing between the two. The buyer noticed the problem on the licence and claimed clarification from the seller, but the seller failed to meet this request. Accordingly, the buyer exercised his right of retention of payment on the ground that the goods were not delivered free from third-party claims. It was, therefore, possible for the licensor to demand a licence fee from the buyer. The appellate court stated that existing IPRs should have resulted in the seller’s liability by analogy with an unfounded claim which leads to the application of Article 42.¹¹¹ On the ground of these facts and the reasoning, a third-party right which has not yet been exercised is also sufficient to trigger the seller’s liability under Article 42. Under such cases, the buyer should not have to wait until the litigation between a third-party and the seller (here the parent company) has been resolved in order to rely on Article 42, on the ground that the risk of being liable against the third-party is serious for the buyer. Also, the buyer should not be expected to bear the potential adverse effects of reselling these goods to his sub-buyers.

Definition of IIP

In terms of the definition of IIP, there is no explicit or implicit explanation either under Article 42 or within the scope of the CISG.¹¹² Also, no discussion on it can be found in the legislative process. Though in relation to the term ‘industrial property’, it was deliberately included to provide clarity as to the scope of protected property rights.¹¹³ As it can be said that Article 42

¹⁰⁹ Rauda/Etier (n 76) 37.

¹¹⁰ *CD media case* (n 88).

¹¹¹ *Ibid.*

¹¹² For a general explanation of what is IP and IPRs, see ‘Chapter Two’.

¹¹³ Secretariat Commentary, ‘Article [42]’ (n 70) 36; See *UNCITRAL Yearbook Volume VIII: 1977* (n 53) 41, note 217, See ‘3.2.2.1. Historical Background of the Article 42’.

follows behind the development of IP law,¹¹⁴ there is no need to investigate ‘industrial term’ within Article 42, and it may be ignored while searching for a definition of the IIP.

The Secretariat Commentary refers to the definition of IP provided under the Convention Establishing the World Intellectual Property Organization (WIPO) as a guide that can be used for understanding the IIP rights under Article 42.¹¹⁵ Article 2 (vii) of the WIPO defines intellectual property as including:

[...] literary, artistic and scientific works, performances of performing artists, phonograms, and broadcasts, inventions in all fields of human endeavor, scientific discoveries, industrial designs, trademarks, service marks, and commercial names and designations, protection against unfair competition, and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.

At first instance, it should be asked whether it is reasonable to employ an IP definition provided by an international convention as the basis for Article 42.¹¹⁶ If it is, then it should be considered whether the WIPO’s definition best suits the context and aim of the article.

The CISG Article 7(1) requires that the CISG should be interpreted in accordance with its ‘international character’ and its aim of uniformity. As the CISG applies to international contracts, it avoids the influence of any domestic legal system. As such, legislation or rules made at an international level assist in preserving the CISG’s international character.¹¹⁷ For this reason, international conventions on IPRs are suggested as a tool for understanding the meaning of the terms IIP under Article 42.¹¹⁸ Therefore, the WIPO is chosen as an instrument which can be employed for determining the meaning of IIP which is not provided within the CISG.¹¹⁹

However, the territorial nature of IPRs means that different approaches are employed for classifying and protecting these rights by different states, and gives rise to the question whether these different approaches should be excluded from the scope of the CISG in order to advance its ‘international character’.¹²⁰ For example, if a right (generally considered as an IPR) is protected by tort, unfair competition law or else in a national system, should it be deemed as

¹¹⁴ Most of the countries were aware of IPRs and they regulated the issue both under domestic law and international agreements when the CISG was drafted. See Kröll, ‘Article 42’ (n 40) 649.

¹¹⁵ Secretariat Commentary, ‘Article [42]’ (n 70) 36.

¹¹⁶ See Rauda/Etier (n 76) 33; Schwenger, ‘Article 42’ (n 6) 694. See Samuel K. Date-Bah, ‘Article 42’ in CM Bianca and MJ Bonell (eds), *Commentary on the International Sales Law: The 1980 Vienna Sales Convention* (Giuffrè 1987) 32.

¹¹⁷ John Felemegas, ‘The United Nations Convention on Contracts for the International Sale of Goods: Article 7 and Uniform Interpretation’ (PhD Thesis, University of Nottingham 2000) 427.

¹¹⁸ See Kröll, ‘Article 42’ (n 40).

¹¹⁹ See Rauda/Etier (n 76) 33.

¹²⁰ See Rauda/Etier (n 76) 37-38.

outside the scope of Article 42?¹²¹ It is possible that a national IP law may either not cover IPRs to the extent provided by an international IP convention or that it does not provide special rules for IPRs. Should the CISG give priority to protect its ‘international character’ and disregard differences between the international IP agreements and national IP laws? Even though the Secretariat Commentary offers the WIPO’s definition for IIP under Article 42, most authors support the view that regardless of the classification and the type of protection of IPRs provided under national laws; the article should cover these third-party IPRs.¹²² According to Schwenger, the essential issue is that third-party rights or claims should be derived from one of the IPRs such as trademarks, patents and copyrights.¹²³ It is suggested that the decisive factor for determining which rights are covered under Article 42 is whether the third-party IPRs impair the use or resale of the goods.¹²⁴

If a literal interpretation of the law is employed, and the meaning of the article is established word by word, third-party rights which are protected under IP law must be taken as the rights that trigger the seller’s liability under Article 42. Therefore, any rights protected by means of laws other than IP law should be dismissed. However, a literal approach is not favourable since vagueness can occur due to the nature of language.¹²⁵ As there is vagueness and different meanings of the terms and words used, interpreting them merely in a literal approach may fail to provide a full understanding of the articles. If a functional or purposive approach to interpretation is followed,¹²⁶ it can be said that any rights or claims which restrict the buyer from using or reselling the goods in question should be adequate regardless of the means of protection provided for these rights or claims. Article 42 does not deal with IPR registration or

¹²¹ Schwenger, ‘Article 42’ (n 6) 694-695, footnote 13. Under US Law, the trade secrets are protected as a type of IP by Uniform Trade Secret Act. Also, unregistered know-how is protected as a proprietary right. See <<https://www.uspto.gov/patents-getting-started/international-protection/trade-secret-policy>> accessed 20 November 2018. Know-how is protected by section 17 of UWG (German Act on Unfair Competition) under German Law. Under Dutch Law, know-how is not protected by means of exclusive and absolute rights; it is protected by means of civil and criminal law. For know-how protection under German and Dutch Law see Rogier W. De Very, *Towards a European Unfair Competition Law* (Martinus Nijhoff Publishers 2006). Under Turkish Law, situations such as use of identical or similar names for the products, business or services with other in order to create confusion in public protected by unfair competition law. The articles settle these issues are found in Turkish Commercial Code. See Tuğrul Ansay, Eric C. Schneider, *Introduction to Turkish Business Law* (Kluwer Law International 2001).

¹²² See Schwenger, ‘Article 42’ (n 6) 694-695; Kröll, ‘Article 42’ (n 40) 650; Rauda/Etier (n 76) 34.

¹²³ Schwenger, ‘Article 42’ (n 6) 694.

¹²⁴ Ibid 695, Kröll, ‘Article 42’ (n 40), Saidov (n 16) 211.

¹²⁵ Hans Kelsen, *The law of the United Nations: A Critical Analysis of Its Fundamental Problems* (Stevens 1950) p xiii.

¹²⁶ See Nils Jansen, ‘Comparative Law and Comparative Knowledge’ in Mathias Reimann and Reinhard Zimmermann (eds) *The Oxford Handbook of Comparative Law* (OUP 2006) 308; Ralf Michaels, ‘The Functional Method of Comparative Law’ in Reimann and Zimmermann (eds) (n 126) 342; Esin Öricü, ‘Developing Comparative Law’ in Esin Öricü and David Nelken (eds) *Comparative Law A Handbook* (Hart Publishing 2007); Julie De Coninck, ‘The Functional Method of Comparative Law: ‘Quo Vadis?’ 74 (2010) *Rabels Zeitschrift für ausländisches und internationales Privatrecht* 318.

protection. It is not important that a third-party's rights or claims over goods are protected under IP law specifically. Therefore, IPRs and claims protected by other branches of law must fall within Article 42, and such third-party rights and claims lead to the liability.

In my view, any IPRs or claims should be examined pursuant to the law under which the right or claim has been raised. Even though a right or claim does not qualify as an IPR under the WIPO's definition, a third-party can bring an action in the country where he raised his claims or rights. If a third-party claim is successful, the buyer's use or resale of the goods in question will be restricted. Also, IP law and IPR definitions only assist in determining whether the third-party claims are based on Article 42. Examining domestic law to determine rights or claim is based on IIP does not mean that national IP legislation is applied when Article 42 is invoked. Therefore, it will not harm the international character of the CISG if the reference is made to domestic IP legislation in this way.

Another question is whether it is appropriate to employ an IPR definition offered by the WIPO to Article 42.¹²⁷ This question is of importance on the ground that the WIPO's definition is employed for deciding upon the nature of the claim made by a third-party, and as a result of this, the applicability of Article 41 or 42 to the case will be determined. There are other international IP conventions which are mentioned in Chapter Two of the thesis.¹²⁸ The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) was concluded later than the WIPO; it listed the types of IPRs and extensively classified each of them.¹²⁹ This broad definition and classification may lead to choosing the TRIPS as a basis for the meaning of IIP under Article 42. However, when the WIPO Article 2 is examined, it can be seen that the article only provides a general meaning of the kinds of works accepted as an IPR, and, by including the phrase 'all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields' the WIPO's definition enables the inclusion of a right within the scope of IPRs. Thus, employing the definition provided by the WIPO fits with, our view, that the Article should also cover third-party IPRs which are protected by laws other than IP law. Also, within the literature, scholars support the determination of what is IIP under the CISG through the application of the WIPO Article 42.¹³⁰

¹²⁷ See Rauda/Etier (n 76) 33; Schwenger, 'Article 42' (n 6) 694. See Date-Bah, 'Article 42' (n 116) 321.

¹²⁸ See Chapter Two. For an overview of international treaties and conventions see <<http://www.wipo.int/export/sites/www/about-ip/en/iprm/pdf/ch5.pdf>> accessed 20 November 2017.

¹²⁹ See TRIPS Article 1(2).

¹³⁰ See Schwenger, 'Article 42' (n 6) 694; Kröll, 'Article 42' (n 40) 651; Rauda/Etier (n 76) 33. Rauda and Etier stated that: 'The WIPO's definition is the most extensive definition compromising all of other three treaties' notion.'

IIP Rights Covered Under Article 42

Another issue is which third-party IIP rights are within the scope of Article 42. It is generally acknowledged that copyrights, patents, trademarks and commercial names are the rights covered by the article.¹³¹ However, within the literature, it is debated whether the IIP rights under Article 42 extend to personality rights and names.

Personality rights are a bundle of rights for the use of, name, image, voice, likeness, and other similar rights arising from the individual's personality and identity.¹³² Through the commercialisation and production of goods affixed with famous persons or fictional characters, and advertising with a person's names or likeness have been increasing,¹³³ the protection against the unauthorised use of personality rights becomes important. The right of publicity is employed concurrently with rights of personality, which protects the individuals' commercial use of their names.¹³⁴ Personality rights are not universally recognised, and protection of a person's name or image is subject to varying forms of protection in different legal systems. There is no such right to personality under English law whereas it is accepted as similar to the right of publicity in the US.¹³⁵ The main problem is here the lack of consensus as to whether these personality rights are accepted as part of IP. Some scholars argue that the rationale of IP cannot justify personality rights,¹³⁶ but others believed on the contrary that these rights should be included within the sphere of IP law based on the similarities between IPRs.¹³⁷

¹³¹ See Kröll, 'Article 42' (n 40) 652; Schwenger, 'Article 42' (n 6) 696, Enderlein/Maskow (n 17) 168; Beline (n 6) 9. Beline holds the view that the article's protection would be limited to trademark, copyright and patent infringements.

¹³² Giorgio Resta, 'Personnalité, Persönlichkeit, Personality' (2014) 1 *European Journal of Law and Governance* 215; A. M. Conroy, 'Protecting Your Personality Rights in Canada: A Matter of Property or Privacy' (2012) 1 *W.J. Legal Stud.* (v).

¹³³ See Sir Duncan Mackenzie Kerly, *Kerly's Trademarks and Trade Names* (16th Ed, Sweet & Maxwell 2017) 26-001; Sydney Altman, 'Persona-Character Copyrights and Merger's Role in the Evolution of Entertainment Expressions' (2018) 67 *Emory L.J.* 735; Caitlin Kowalke, 'When Individual Rights Should Tackle Unfair Commercialization: How the Transformative Use Test Should be Tailored to Meet Evolving Technological Needs in Right of Publicity Cases' (2017) 8 *Cybaris* 87.

¹³⁴ Resta (n 132); Robert T. Thomson, III, 'Image As Personal Property: How Privacy Law Has Influenced the Right of Publicity' (2009) 16 *UCLA Ent. L. Rev.* 155.

¹³⁵ Eliana Torres, 'The Celebrity behind the Brand International Protection of the Right of Publicity' (2016) 6 *Pace Intell. Prop. Sports & Ent. L.F.* 116; Resta (n 132), Aldo De Landa Barajas, 'Personality Rights in the United States and the United Kingdom- is Vanna too much? Is Irvine not Enough' (2009) 20 *Entertainment Law Review* 253; Altman (n 133).

¹³⁶ K. J. Greene, 'Intellectual Property Expansion: The Good, the Bad, and the Right of Publicity' (2008) 11 *Chap. L. Rev.* 521; Corinna Coors, 'Is the UK Heading Towards the Protection of Image Rights' (Selected Issues in Public Private Law, ATINER, Athens, 2015) <<http://www.atiner.gr/papers/LAW2014-1101.pdf>> accessed 25 April 2018.

¹³⁷ Torres (n 135) 140-142; Kowalke (n 133). See *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 US 562 (1977), 571-72. The court stated that right of publicity is 'closely analogous to the goals of patent and copyright law'.

While this is the case for the right of personality, opinions diverge as to whether these rights can be protectable by Article 42. Schwenger believes that it is not easy to distinguish IPRs and rights of personality when the latter has a similar function to IPRs.¹³⁸ Thus, considering the strict liability imposed by Article 41 for the rights *in personam* and *in rem* relating to specific goods, the author favours restricted liability for rights of personality which are connected to numerous similar goods.¹³⁹ Kröll also supports this view on the ground that the use of goods affects these rights and the right holder can use his rights against the buyer.¹⁴⁰ It is also argued that these personality rights have an impact on the goods comparable to IPRs, which means that they cannot be easily removed and can, therefore, be covered as IIP under Article 42.¹⁴¹

In contrast, Rauda and Etier disagree in the light of the explicit distinction created between IPRs and defects in title within the scope of the CISG.¹⁴² According to them, this distinction leaves no room for an analogy, and the rights of personality are not included in Article 42. Saidov argues that the wording of articles 41 and 42 is clear that the former covers ‘personality rights’ and the latter is for IIP rights, and the drafters intentionally did not refer to personality rights under Article 42.¹⁴³ Thus, he is in favour of a restrictive interpretation of Article 42 and “not creating ‘unwritten legal basis’ for promoting certain solutions.”¹⁴⁴

It is true that the nature and protection of personal rights have not yet been clarified. However, under some jurisdictions, these rights are deemed to fall within the scope of IP and are protected by IPRs. When defining the IPRs within the meaning of Article 42, it is suggested that IPRs should be examined according to the law under which these IPRs and claims have been raised. Therefore, when an individual who resides in the US claims that his images (or alike) have been attached to the goods without his consent, his claims on personality rights needs to be examined according to the US law which gave rise IP-based protection.

If Rauda and Etier’s approach were followed, the interests over the goods that relate to the individual’s personal rights could extend the seller’s liability contrary to the aim of the

¹³⁸ Schwenger, ‘Article 42’ (n 6) 696.

¹³⁹ Ibid.

¹⁴⁰ Kröll, ‘Article 42’ (n 40) 652. The view of covering names of personality under Article 42 supported and seen as a prevailing view by others. See Huber/Mullis (n 24); Metzger (n 24) 214.

¹⁴¹ Ingeborg Schwenger, Pascal Hachem and Christopher Kee, *Global Sales and Contract Law* (OUP 2012) 33-11.

¹⁴² Rauda/Etier (n 76) 34-35. For a similar view Kristian Maley, ‘The Limits to the Conformity of Goods in the United Nations Convention on Contracts for the International Sale of Goods (CISG)’ (2009) 12 Int’l Trade & Bus. L. Rev. 82, 91.

¹⁴³ Saidov (n 16) 212-213.

¹⁴⁴ Ibid 213.

article.¹⁴⁵ Regarding Saidov's argument about creating an 'unwritten legal basis', the drafters' inclusion of the term 'industrial property' within the article even though clearly IP covers 'industrial property' as a sub-category in itself can lead to a conclusion that they must also explicitly refer 'personality rights' within the language in order to include these. The inclusion of both the terms industrial and intellectual property was a cause of the different approaches, and it must have been difficult to foresee and recognised an issue which had not been developed that extent. From my perspective, despite the lack of reference to the personality rights, excluding those rights protected by IP would hamper the main aim of the article. Consequently, according to my opinion, the IIP rights under Article 42 should also cover the personality rights to the extent that they are protected by IP law.

Overall, IIP rights under Article 42 can be understood as the rights resulting from human intellectual endeavours within the industrial, scientific, artistic or literary areas, classification and protection of which can be by special IP law at both national and international levels, or other legal means different from the IP, and personality rights which are protected in accordance to IP law.

2. Seller's Knowledge

The seller is only liable for third-party IIP rights and claims of which 'he knew or could not have been unaware' when the contract was concluded. The threshold of his knowledge is debated because of the lack of explicitness of the phrase 'could not have been unaware'. Within the CISG context, the phrase 'ought to have known' is used widely,¹⁴⁶ which imposes a duty to inquire on the party in question. Nevertheless, only four articles employ the phrase 'could not have been unaware' within their wording.¹⁴⁷ When a close examination is conducted over other articles employing this phrase, the meaning of the phrase also creates interpretation problems under these articles. Under Articles 8, 35 and 40, it can be observed that there is no prevailing view of what constitutes 'could not have been unaware'.

In the legislative history, the ULIS explained what amounts to 'knew and ought to have known' by Article 13, which was not included within the CISG, and had Articles 36 and 40 which employed the phrase 'could not have been unaware'. Regarding this, it was believed that the

¹⁴⁵ See Corynne McSherry, 'Publicity Rights Aren't Property Rights: Appellate Court Gets It Very Wrong in *Hart v. Ea*' (*Electronic Frontier Foundation*, 22 May 2013) <<https://www EFF.org/pt-br/deeplinks/2013/05/publicity-rights-arent-property-rights-court-wrong-hart-v-ea?page=174>> accessed 22 June 2018. Also McSherry criticises the treating the publicity rights as property by stating that 'the court gave far too much weight to celebrities' interest in control over their image and far too little weight to free speech.

¹⁴⁶ See Articles 2, 9, 38, 39, 43, 49, and others.

¹⁴⁷ See Articles 8, 35, 40, and 42.

ULIS Article 13 constituted simple negligence, whereas gross negligence established intentionally for Articles 36 and 40.¹⁴⁸ However, the interpretations evolve around regarding the phrase as ‘more than gross-negligence’,¹⁴⁹ simple negligence,¹⁵⁰ or like actual knowledge.¹⁵¹ Also, whether the phrase imposes an obligation the parties to make an inquiry is an ongoing debate.¹⁵²

It is crucial to establish what amounts to the seller’s knowledge and to what extent his awareness is required to determine his liability when third-party IPRs arise. Similarly, there are divergent views on the interpretation of this phrase within the scope of Article 42. Honnold assumes that this phrase is akin to ‘actual knowledge.’¹⁵³ Smythe holds the contrary view and suggests that when there is a domestic sale it would be reasonable to expect that the seller has actual knowledge of IPRs regardless of their registration or other creation processes because these are created in accordance with the law of the country where the seller is located.¹⁵⁴ In an international sales context, the seller could not have actual knowledge of these IPRs because he would not be familiar with the jurisdictions under which the IPRs were raised. Nevertheless, the only possibility for the existence of the seller’s actual knowledge is offered when the buyer resells to the seller’s country.¹⁵⁵

Beyond the debate on whether the seller can obtain actual knowledge, there is another problem considering proof of the seller’s actual knowledge. Janal believes that the phrase establishes that the seller should not ignore apparent facts.¹⁵⁶ This argument does not address the problem

¹⁴⁸ Morten M. Fogt, ‘The Knowledge Test Under the CISG- A Global Threefold Distinction of Negligence, Gross Negligence and *De Facto* Knowledge’ (2015) 34 JL & Com. 23.

¹⁴⁹ See Schwenger, ‘Article 42’ (n 6) 700-701; Huber cited in Enderlein/Maskow (n 17) Article 40; Thomas Neumann, ‘Features of Article 35 in the Vienna Convention; Equivalence, Burden of Proof and Awareness’, (2007) 11 Vindobona J. Intl’L Com. L. & Arb. 81.

¹⁵⁰ Enderlein/Maskow (n 17) 164, Camilla Baasch Andersen, ‘Exceptions to the Notification Rule—Are They Uniformly Interpreted?’ (2005) 9 Vindobona J. Intl’L Com. L. & Arb. 17.

¹⁵¹ Honnold, *Uniform Law* (n 10) 260.

¹⁵² See ‘Cross-Reference and Editorial Analysis of Article 40’

<<http://www.cisg.law.pace.edu/cisg/text/cross/cross-40.html>> accessed 17 May 2017, Alejandro M. Garro, ‘The Buyer's Safety Valve under Article 40: What Is the Seller Supposed to Know and When’ (2005) 25 JL & Com. 253, Sanna Kuoppala, *Examination of the Goods under the CISG and the Finnish Sale of Goods Act* (Turku, 2000) <<http://cisgw3.law.pace.edu/cisg/biblio/kuoppala.html>> accessed 27 July 2017.

¹⁵³ Honnold, *Uniform Law* (n 10) 395, Janal (n 96) 214; The United Nations Convention on Contracts for the International Sale of Goods: New Zealand’s Proposed Acceptance (1992)

<<https://www.cisg.law.pace.edu/cisg/wais/db/articles/newz2.html>> accessed 23 November 2018. See *UNCITRAL Yearbook II: Volume II: 1971* (1972; A/CN.9/SER.A/1971; E.72.V.4) 60, para106. “However, these references to facts of which a party ‘could not have been unaware seem to set a standard approximating actual knowledge and this does not seem ‘similar’ to the term defined in Article 13.”

¹⁵⁴ Donald J. Smythe, ‘Clearing the Clouds on the CISG’s Warranty of Title’ (2016) 36 Nw. J. Int’l L. & Bus. 509, 513.

¹⁵⁵ *Ibid* 535.

¹⁵⁶ Janal (n 96) 213. Similarly VanDuzer believes that the standard imposed by the phrase is similar to wilful blindness and there is no duty to investigate for the seller. VanDuzer, ‘A Seller’s Liability’ (n 43) 192, VanDuzer. ‘The Adolescence’ (n 105).

and actually presents more questions including what the apparent facts are in a situation and the question of how courts will decide and interpret these apparent facts. If Janal when referring to apparent facts means attachment of sign, colour, shape or other similar protected works of a well-known trademark to the ordinary goods (the problem of counterfeit goods), the buyer may also have known these facts which enables the seller to exclude his liability. Similarly, Honnold argued that ‘This expression is used at various places in the Conventions slightly to lighten the burden of proving that facts that were before the eyes reached the mind.’¹⁵⁷

Nonetheless, this suggestion for the easing of proof does not provide insight into the measurement of the proof. It is also highlighted that the CISG does not engage with such procedural law issues.¹⁵⁸ On that basis, how or under which conditions it will be deemed that the seller had actual knowledge cannot be determined from the CISG’s scope. Thus the seller’s knowledge is not clear also under Article 42. It can be suggested that the seller’s actual knowledge can be established in instances where there is a sale of counterfeit goods, sale of authorised goods contrary to the scope of its licence agreement, or if the goods have been already subject to an IPR litigation. While these situations can be accepted as evidence of the seller’s knowledge, the knowledge test to be applied is still ambiguous.

The most remarkable view on the phrase ‘could not have been unaware’ is raised by Shinn who finds the phrase ‘redundant’ by referring to the UK’s statement on the drafting of Article 8, which observes that “the two conditions in paragraph (1) are tautologous since, if a party ‘could not have been unaware’ of the other party’s intent, then he must have known what that intent was. Therefore, it is suggested that the second condition be deleted.”¹⁵⁹ Nonetheless, although the phrase leads to confusion in the determination of the seller’s liability, it should not be completely disregarded, especially in terms of IPRs issues which are more complex than the parties’ intent under Article 8. In addition to Honnold and Shinn, the ‘could not have been aware’ has been interpreted by other commentators as an element of fault,¹⁶⁰ and a way to prove the seller’s fault.¹⁶¹

Another view interprets the phrase as ‘gross negligence’; however, the opponents do not hold the same approach concerning the duty to the inquiry (which is examined below in detail).¹⁶²

¹⁵⁷ Honnold, *Uniform Law* (n 10) 260.

¹⁵⁸ Fogt (n 148) 52. See *UNCITRAL Yearbook Volume VIII: 1977* (n 53); *Kantonsgericht Nidwalden* (Switzerland) 23 May 2005 (PACE). The court stated that: ‘The burden of proof is to be determined by the CISG whilst the necessary degree of judicial conviction is subject to the *lex fori*.’

¹⁵⁹ Shinn (n 43) 124. See *Official Records* (n 5).

¹⁶⁰ Schlechtriem (n 4) 6-33.

¹⁶¹ Schwerha (n 43) 459.

¹⁶² See Huber/Mullis (n 24) 176; Schlechtriem/Butler (n 24).

The phrase, ‘could not have been unaware’ gives the impression that the seller cannot ignore the existence of third-party IIP rights which is obvious with regard to the circumstances of every case. The phrase ‘could not have been unaware’ seems akin to gross negligence which requires reasonable steps to be taken. Therefore, the seller should act with due diligence and take reasonable steps to avoid any third-party IIP rights and claims.¹⁶³ Also, Fogt provides a detailed examination of the knowledge test and reaches the same conclusion and stated:

It follows from the object and purpose of the use of the language could not have been unaware in CISG Articles 8(1), 35(3), 40, and 42(2) (in the sense of a gross negligence standard) that the aim is to set a higher bar for the constructive knowledge of a party in order to (1) ascertain that the parties actually share a common intent (under CISG Article 8(1), one party’s subjective intent which with a high likelihood is shared by the other party), (2) provide for a buyer-friendly provision (under the caveat emptor rules of CISG Articles 35(3) and 42) that does not impose on the buyer a duty to make a pre-contractual inspection of the goods, or (3) establish a seller-friendly provision by limiting the situations in which a seller may be precluded from relying on the important certainty of the requirements for timely notice of lack of conformity.¹⁶⁴

Different interpretations of the seller’s knowledge raise the question of whether a duty to inquire is imposed on the seller. Contrary to the ‘ought to have known’ phrase, it is argued that ‘could not have been unaware’ does not impose a duty to inquire.¹⁶⁵ On the other hand, it is suggested that the duty to inquire is introduced as an element of fault with the intention of avoiding the imposition of ‘strict liability.’¹⁶⁶ The debate on whether there is a duty to inquire is triggered not only by the unclear meaning of the phrase used but also because of the existence of such unregistered IPRs. The Secretariat Commentary states that the seller could not have been unaware of IIP rights and claims if they are based on a published patent application or grant within the state in question.¹⁶⁷ Similarly, Schlechtriem also asserts the same view and therefore contends that the seller ‘must inform himself about the possible industrial or other intellectual property rights of third persons with regard to the goods sold.’¹⁶⁸ Although Huber/Mullis accept a duty to inquire, they believed that the duty is ‘not to shut his eyes to obvious facts.’¹⁶⁹

¹⁶³ On the similar account see Huber/Mullis (n 24) 176; Katzenberger (n 17) 586.

¹⁶⁴ Fogt (n 148) 94.

¹⁶⁵ Kröll, ‘Article 42’ (n 40) 656; Honnold, *Uniform Law* (n 10) 395.

¹⁶⁶ Schwenzer/Hachem/Kee (n 141) 33.21.

¹⁶⁷ Secretariat Commentary, ‘Article [42]’ (n 70) 37, note 6.

¹⁶⁸ Peter Schlechtriem, *Uniform Sales Law- The UN-Convention on Contracts for the International Sale of Goods* (Manz 1986) 284 <<http://www.cisg.law.pace.edu/cisg/biblio/schlechtriem.html>> accessed 27 October 2017.

¹⁶⁹ Huber/Mullis (n 24) 176.

Accordingly, it is possible that there is a duty to inquire placed upon the seller with respect to the registered IIP rights even though the Commentary only mentions patents.¹⁷⁰ Some authors advocate imposing a duty to inquire on the seller at least in terms of registered rights.¹⁷¹ Saidov, however, argues that the registration of IIP rights should not be considered an ‘immutable line’ when determining the seller’s knowledge.¹⁷² Even though registration of a right can be seen as a quite useful tool for proving the seller’s knowledge, the issue must be approached cautiously, bearing in mind that it might not be easy to access these registrations. In offering a similar contribution, Smythe claims that in most situations the seller has no time or resource to undertake a search for IPRs, so if the buyer is located where the IPRs claims raised, he can search for these rights at a lower cost.¹⁷³

Shinn strongly rejects this duty on the ground that the historical background of Article 42 and does not acknowledge the Secretariat Commentary’s view on registered rights,¹⁷⁴ on the basis that in examining the legislative history. The International Chamber of Commerce (ICC) stated that ‘the Commentary is incorrect’ about the effect of published works on the seller’s awareness.¹⁷⁵ Janal also holds the similar view in arguing that there is no such duty imposed by ‘the wording of Article 42(1)’.¹⁷⁶ According to her, the seller’s knowledge imposed under the article is close to actual knowledge which does not require any duty to inquire.

Janal rejects this view and argues if there is such duty to make an inquiry on published rights, ‘a limitation of this liability -- the true purpose of Article 42 CISG -- would never be achieved.’¹⁷⁷ Her concerns can be understandable, however, by requiring inquiry on the existence of third-party IIP, in my opinion, the seller’s obligation is not expanded because the inquiry is accepted only for published rights and still falls within viable limits, and the seller can, therefore, avoid further losses by simply proving that he conducted the investigation. Firstly, imposing such a duty does not merely guarantee that the seller actually undertakes this, and it is still a possibility that the seller may skip the search for related IP registrations. It is not a strict obligation, and even if the seller fails to do so, his liability cannot be raised because of the non-existence of other requirements. For example, the third-party IIP rights have not been raised under the territories defined by the article or the buyer knows the existence of these third-party rights. Secondly, if such a duty is rejected, how ‘could not have been unaware’ be

¹⁷⁰ Schwenger, ‘Article 42’ (n 6) 701.

¹⁷¹ Ibid 701; Kröll, ‘Article 42’ (n 40) 656.

¹⁷² Saidov (n 16) 222.

¹⁷³ Smythe (n 154) 535.

¹⁷⁴ Shinn (n 43) 124. For ICC comments on the issue see *UNCITRAL Yearbook Volume VIII: 1977* (n 53) 152.

¹⁷⁵ *Official Records* (n 5) at 78.

¹⁷⁶ Janal (n 96) 215.

¹⁷⁷ Ibid 214.

evidenced (this is discussed above), and how the aim of limiting the seller's liability due to the nature of IPRs can be achieved.

While these authors reject this duty to investigate, Schwenger argues that rejection of this duty diminishes 'the practical importance' of the article.¹⁷⁸ This view is supportable, and it can be presumed that the drafters' preference for this phrase rather than 'ought to have known' may be due to a lack of knowledge of IPRs. Thus, they might have avoided creating any burden which they could not have foreseen at the time they drafted the article by imposing such a strict wording.¹⁷⁹

Saidov also considers the imposition of a duty to inquire as based on the seller's assumption of risk when he can avoid these risks.¹⁸⁰ It is generally asserted that the seller has superior knowledge on the components of the goods, and this enables him to foresee possible IPRs problems.¹⁸¹ Janal opposes this idea in relation to trademarks because she points out the cases when the buyer was aware of the trademark at the conclusion of the contract.¹⁸² This situation is right when well-known trademarks are considered. In *Eximin v Textile and Footwear*,¹⁸³ the denim boots sold had infringed Levi's trademark, and although the boots were delivered to the US where the trademark was granted and protected, the Court's statements are noteworthy. It stated: 'This company is not a small, unknown company. This company's goods are marketed around the world and any sensible person ought to have assumed that such a company would register a trade mark for its products, at least in its country of origin, which is the United States.'¹⁸⁴ Therefore, under these circumstances, the seller cannot claim that he did know or could not have been unaware of the trademark. This case provides an interesting decision by the allocation of the liability in between both the seller and the buyer according to the good faith obligation under Israeli law because the court also asserted that the buyer also 'knew and could not have been unaware' the facts.¹⁸⁵

However, such situations do arise when the buyer purchases the goods in reliance on the license agreement between the seller and the right holder, but a dispute can arise on the licence terms, or it comes into the end. Although Janal raises this point with reference to the *CD Media* case

¹⁷⁸ Schwenger, 'Article 42' (n 6) 701. See also Kröll, 'Article 42' (n 40); Rauda/Etier (n 76) 45. On that account, Rauda and Etier regard this duty as a subordinate obligation and without it the article will lose its 'legal impact'.

¹⁷⁹ *UNCITRAL Yearbook Volume VIII: 1977* (n 53) 41,151,152.

¹⁸⁰ Saidov (n 16) 219.

¹⁸¹ See Smythe (n 154) 531. He argues that when there is an asymmetric information problem, the seller's private information can help to identify the quality of the warranty, and by overcoming these asymmetric information problems the transaction costs will be lowered.

¹⁸² Janal (n 96) 214.

¹⁸³ *Eximin Textile* (n 68).

¹⁸⁴ *Ibid.*

¹⁸⁵ *Eximin Textile* (n 68).

in which a dispute arose by the termination of the licence agreement between the seller's parent company and the licensor,¹⁸⁶ she still does not support the assumption of the seller's superior knowledge as a justification for duty to inquire. Also, I want to highlight that the buyer's awareness is already accepted as excluding the seller's liability. The questions of whether the seller was required to inquire about IIP rights and whether he undertook this duty will become irrelevant when the buyer was already aware of the IIP rights. Nonetheless, the assumption of the seller's superior knowledge can considerably assist the establishment of a threshold for the liability.

Also, the seller's superior knowledge can be acknowledged when he repairs and sells patented products. Repairs which affect the 'subsidiary part', enhances the life span of the replaced part and has a connection with the inventive concept, can be accepted as an infringement. There are cases in different jurisdictions under which such acts exceed the scope of repair or modification and are accepted as an infringement of the patent right.¹⁸⁷ Furthermore, if the seller has a licence agreement for selling, producing, or making a work/product protected by IPRs, but when he sells these goods within territories not covered by the licence agreement,¹⁸⁸ or this licence has been terminated,¹⁸⁹ in both instances it should be accepted that he knows the goods better and he can avoid the risk of infringing third-parties IPRs.

Within the literature, a distinction is also drawn between sellers regarding their professional capacity when discussing a duty to investigate. If the seller is the producer of the goods in question, and on the assumption that he knows better every component of the goods, he should investigate the possible third-party IIP rights over it within the states defined by the article.¹⁹⁰ In contrast, if the company is a small-sized enterprise which does not deal with the market that targets the goods in question, it is accepted that the seller would not be liable to the same degree as the one professional in the market.¹⁹¹ This approach can be explained on the basis of the economic analysis of law. Accordingly, the decision about which party should bear the risk of encountering third-party IIP rights is solved in accordance with the calculation of the research cost associated with existing IIP rights over the goods.¹⁹² Therefore, the party who can obtain

¹⁸⁶ *CD media case* (n 88).

¹⁸⁷ See Mizuki Sally Hashiguchi, 'Recycling Efforts and Patent Rights Protection in the United States and Japan' (2008) 33 *Colum. J. Envtl. L.* 169; Scott M. Tobias, 'No Refills: The Intellectual Property High Court Decision in *Cannon v. Recycle Assist* Will Negatively Impact the Printer Ink Cartridge Recycling Industry in Japan' (2007) 16 *Pac. Rim L. & Pol'y J.* 775; *Fuji Photo Film Co. v. Jazz Photo Corp.*, 249 F. Supp. 2d 434, 440 (D.N.J. 2003).

¹⁸⁸ *HTC Corporation v Nokia Corporation* [2013] EWCH 3247 (Pat).

¹⁸⁹ *CD media case* (n 88).

¹⁹⁰ *Ibid*; Rauda/Etier (n 76) 47; Kröll, 'Article 42' (n 40) 657.

¹⁹¹ Kröll, 'Article 42' (n 40) 657.

¹⁹² Metzger (n 24) 204.

the information about IIP rights at a lower cost should carry the burden of searching for it. Regarding the seller's superior knowledge of the goods and all components, it is generally accepted that the burden of making an inquiry falls upon him.¹⁹³ When the seller is a producer at the same time, it is true that he can conduct such research cheaper than the buyer.

However, this distinction also brings with it some uncertainties. When the seller does not produce the goods, and the research cost is high for him, what will be the seller's responsibility? Is it possible for the seller to claim the exclusion of his liability based on the excessive costs? I believe that the seller should not be freed from his duty under such circumstances, but the degree to which he is held liable may be examined in relation to reasonableness and due diligence. The distinction drawn between the seller's capacity should be understood as a tool to measure how strictly the seller should be held liable for research on IIP rights. It is accepted that Article 42 does not impose strict liability on the seller. Therefore, Janal argues that establishing a strict duty to inquire for the seller would diminish the article's aim of limiting the seller's liability.¹⁹⁴ However, according to my view, that imposition of a duty to inquire would not expand the seller's liability for third-party IIP rights in general. This duty to inquire can be considered as 'a subordinate obligation' which clarifies whether the seller has an awareness of the IIP rights over the goods under the determined states.¹⁹⁵ As the seller is not obliged to undertake a worldwide search, there is still a limitation on his liability.

Consequently, commentators suggest a middle way and acknowledge that imposing a duty to inquire on the seller depends on the circumstances of each case and the type of IIP rights.¹⁹⁶ While it is accepted that the seller should make an inquiry for registered IIP rights, such as patents and trademarks, this obligation should be denied for unregistered rights, such as copyright, know-how and so on.¹⁹⁷ Nevertheless, it might be possible to claim that the seller 'could not have been unaware' of these unpublished or unregistered IIP rights if he hid any IIP problem which he was aware of at the time of the conclusion of the contract, or a third-party had already approached him about these rights.

¹⁹³ Metzger (n 24) 204; Janal (n 96) 214; Kröll, 'Article 42' (n 40) understandings of a reasonable person of the same kind.

¹⁹⁴ Janal (n 96) 215.

¹⁹⁵ Rauda/Etier (n 76) 32.

¹⁹⁶ VanDuzer, 'A Seller's Responsibility' (n 43) 192; Rauda/Etier (n 76) 45-48; Katzenberger (n 17) 589.

¹⁹⁷ Schwenger, 'Article 42' (n 6) 701.

The relevant time for the seller's knowledge or awareness is the time of the conclusion of the contract. Any knowledge acquired after this time may not lead to the seller's liability. However, the seller should inform the buyer on the ground of due diligence.¹⁹⁸

3. Territorial Limitations

Article 42 also limits the seller's liability to the states where the goods will be used or resold or the buyer's place of business. The rationale of the CISG drafters and academic commentators that the seller should not provide a worldwide protection from any third-party IIP rights over the goods, which would be beyond reasonable expectations of the seller, and it would be difficult for him to undertake a search on the IIP rights within divergent law systems.¹⁹⁹ Therefore, the seller's liability is restricted to the states determined by Article 42(1)(a) and (b). According to Metzger, this is 'the most important restriction' set under the article.²⁰⁰ Compared with the requirement of the seller's knowledge and awareness, this territorial limitation brings a restriction which in practice draws the borderline of the seller's liability.

As previously argued, any IPRs or claims should be examined pursuant to the law of the countries under which the right or claim has been raised, so the laws that operate in these territories are relevant when examining the existence of third-party IPRs. However, there are differences in the IP law and the protection of IPRs across the states, and this highlights the need to adjust each different jurisdiction. Hence, it can be asked if the intention is to limit the seller's liability or examine the IPRs in accordance with the different national laws will create further problems. Whether the national IP law applied to determine the existence of IPRs diminishes the international character of the CISG and causes a homeward trend application is one of them. Not only in the scope of the CISG but also IP law, in general, gives a coherent answer for what is the IP. When IP law cannot provide a certain or uniform answer for the IPRs protection, it is unreasonable to expect that the CISG will solve IPRs issues with uniformity. However, the main point is to apply the domestic IP laws in order to decide whether a third-party's claims are rightful, whether there is such an IPR belonging to a third-party, and if so, whether it is really infringed by the CISG buyer's dealings. These issues have no effect on the application of Article 42 and the international character of the CISG. Until there is a single universal application of IP law, the existence of third-party IPRs will have to be determined in accordance with the jurisdictions where these rights are raised.

¹⁹⁸ Schwenzer, 'Article 42' (n 6) 701; Rauda/Etier (n 76) 49.

¹⁹⁹ Kröll, 'Article 42' (n 40) 652; Huber/Mullis (n 24) 175.

²⁰⁰ Metzger (n 24) 208.

State of Contemplated Use or Resale

Article 42(1)(a) defines that the seller's liability arising under the law of the state where the goods will be resold or otherwise used which is determined in accordance with the contemplation of the parties.²⁰¹ The contemplation of the parties should be made at the time of the conclusion of the contract. As such, the seller would be able to conduct research regarding IIP rights in these contemplated states.

It has been debated whether this contemplation needs to be based upon an express agreement or not. Regarding Article 11, there is no need to express agreement or a written contract on the determination of the states.²⁰² These contemplations can be understood from the communications from the buyer, a request of delivery to a particular state different from his place of business, or previous conducts with the buyer.²⁰³ However, knowledge of the states where the buyer conducts his business is not regarded as a contemplation.²⁰⁴

The use of 'or' within the article's wording (which reads 'resold or otherwise used') is an important part of the discussion of whether the parties should prefer either the state where the goods are sold or the state where the goods are otherwise used.²⁰⁵ The prevailing view is to interpret the wording as allowing the contemplation of both at the same time, bearing in mind the parties can conclude separate contracts for the resale or use of the goods since otherwise interpretation would not have any practical impact.²⁰⁶

Unless the seller objects, the buyer will be protected for his use of the goods in a manner which is made known to the buyer.²⁰⁷ It needs to be questioned whether the seller can object to the use or resale of the goods within a certain state requested by the buyer. If he can, under which conditions may the seller be allowed to reject the buyer's claim? If the seller is aware of third-party IIP rights within the state where the buyer wants to use or resell the goods in question in accordance with the IIP research he made previously; a third-party has already raised a claim under this state; or a licence agreement made over the goods in question restricts the use of the goods/licence in certain states, then the seller should inform the buyer and may be able to reject the contemplation of this state. However, if the buyer still insists on taking delivery to this

²⁰¹ This requirement of the contemplation by the parties is a close liability with Article 35(2)(b) which states that the goods should fit for the purposes made known to the seller at the time of the conclusion of the contract.

²⁰² Kröll, 'Article 42' (n 40) 653; Huber/Mullis (n 24) 175; Rauda/Etier (n 76) 51; Enderlein/Maskow (n 17) 169.

²⁰³ Kröll, 'Article 42' (n 40) 653; Schwenger, 'Article 42' (n 6) 698; Rauda/Etier (n 76) 52.

²⁰⁴ Kröll, 'Article 42' (n 40) 653; Metzger (n 24) 209.

²⁰⁵ Rauda/Etier (n 76) 51.

²⁰⁶ Ibid 51; Schwenger, 'Article 42' (n 6) 698.

²⁰⁷ Kröll, 'Article 42' (n 40) 653.

particular state, the liability from third-party IIP rights is placed upon the buyer by subparagraph (2) of the article.

Kröll believes that the buyer should be protected from his sub-buyers' claims when they encounter third-party IIP rights over the goods in the states which the buyer has already indicated are ones in which he will resell the goods.²⁰⁸ This statement seems reasonable as the wording of the article accepts that the seller's liability is extended to the states where the goods are to be sold. However, Kröll expands his argument and argues that a third country where his sub-buyers will use or resell should also be under the scope of the seller's liability.²⁰⁹ This argument needs further attention because of the risk of extending the liability broader than it needs to be. If the buyer asks for the delivery to State X where his sub-buyer is located or clarifies that after taking the delivery to State Y then he will resell the goods to State Z, these contemplations should be regarded as falling within the reasonable limits of the seller's liability. Also claiming a third state (such as delivery to State A, resale to State B, and sub-buyer resale to State C) where his sub-buyer uses or resells the goods may be considered as an expansion of the seller's liability to unreasonable limits.

It is true that if the seller is the producer of the goods and knows every single component, any search on IIP rights that may be infringed under a certain state can be conducted more easily by the seller than the buyer. Nevertheless, in my opinion, that the seller should not be liable for third-party IIP rights under this third state in relation to the buyer's sub-buyers. If this resale is also an international sale and governed by the CISG, the buyer needs to be responsible for his sub-buyers' expectations of taking the goods free from any third-party IIP rights in the states contemplated by the parties. Thus, the buyer should conduct a research on the potential IIP rights infringements, and his liability should be measured in accordance with the criteria of the duty to make an enquiry.²¹⁰

Another question is how many states can the parties contemplate, and whether there is a maximum limit for such states. Regarding the wording of the article, employing the singular form 'state' raises concerns about whether the seller's liability is limited to only one state.²¹¹ Enderlein and Maskow hold the view that the seller is only liable for third-party IIP rights under one state, and believe that state means country.²¹² For his part, Shinn argues that this interpretation leads to ignorance of federal laws on the IPRs applied under different states of

²⁰⁸ Kröll, 'Article 42' (n 40) 653.

²⁰⁹ Ibid.

²¹⁰ See '3.2.2.2.-2 Seller's Knowledge'.

²¹¹ Shinn (n 43) 128.

²¹² Enderlein/Maskow (n 17) 169; Enderlein (n 6) 182.

the US and suggests that ‘state’ should cover both the ‘nation’ and ‘its subordinate jurisdictions’.²¹³ This interpretation of the state under the article is suitable for the aim of restricting the seller’s liability to certain territories. Thus, rather than providing an IIP research on a whole nation basis, searching on the specific jurisdiction where the goods were used or resold sets clear limits on the liability. Also, this limited research may be considered economically efficient in terms of the costs the seller should pay and risk allocation rules regarding defining the exact territory where the infringement risk can occur. Furthermore, taking into account the subordinate jurisdictions of a nation-state may enhance the security and the trust within international trade given that the seller will conduct research under the specific territory the buyer will trade in.

In terms of the number of states which can be contemplated by the parties, the possibility that the buyer can use the goods or resell the goods within different states and can trade globally may broaden the extent of the seller’s duty to inquire imposed as a subordinate obligation and liability for third-party IIP rights. Nevertheless, establishing a numerical limit to the states where the seller’s liability can occur cannot be simple. The buyer expects to trade, trusting that he will not be prevented from use or resale by third-parties, and so demands protection under all the states he determines and informs the seller about these. If the states are members of worldwide applied IP law agreements or members of particular unions (such as the European Union), it can be accepted that the seller can satisfy his duty without searching exhaustively.²¹⁴ However, setting a threshold for the number of states which the parties can contemplate is a complex issue because it is necessary for determining which criteria or method should be applied for deciding on this limit.

Buyer’s Place of Business

In the case of the parties’ failure to contemplate of states, Article 42(2)(b) obliges the seller to deliver goods free from third-party IIP rights in the buyer’s place of business. If the buyer has more than one place of business, it will be determined according to Article 10. The relevant time for the determination of the buyer’s state is the time of the conclusion of the contract; any change after this time does not have any impact on the seller’s liability.²¹⁵

²¹³ Shinn (n 43) 128; Rauda/Etier (n 76) 53.

²¹⁴ Similar view Beline (n 6) 15.

²¹⁵ Schwenzer, ‘Article 42’ (n 6) 699.

State of Transit

In some situations, third-party IPR infringement can occur within the state of transit.²¹⁶ However, whether Article 42 provides protection from IPR infringement in the state of transit is questioned, and the answer is dependent upon the types of transit. The goods in question can be transported via mere transit just by following the route through other states' territory, or the goods can be packed, stored or processed during the transit.

Schwenzer argues that the seller is not liable for any third-party IIP rights which exist in the state through which the goods merely transit unless the State of transit is the State of use, and both the State of use and State of transit apply the same protection.²¹⁷ The author believes that the seller may be liable in terms of the breach of delivery obligation under Article 30 when the goods are seized in the state of transit before the delivery has been made.²¹⁸ The liability only arises when the seller 'was aware of the envisaged State of transit and the respective standards of protection'; however, Schwenzer argues that the liability may be excluded because 'the buyer is often equally aware' of these standards.²¹⁹

Metzger proposed a solution which is that the article would cover the IIP rights granted in the state of transport if it was contemplated by the parties.²²⁰ The article's wording 'resold or otherwise used' supports the rejection of liability for IPR infringement during mere transit.²²¹ Pursuant to this understanding, the goods are protected from third-party IIP rights at the state of destination, but any IIP rights that exist along the route that should be followed to reach this destination are excluded from the scope of the article. Regarding the fact that the seller's delivery obligation of the goods at the specified destination can only be met by following a route either by sea, road or air, during which the goods pass through territories other than the

²¹⁶ Under Turkish Decree-Law No. 556 of June 24, 1995 on the Protection of Trademarks Article 9(2)(c), even the mere transit of the goods which infringe trademark protected under Turkish Law, can be detained in customs. On a similar account, Swiss Patent Law Article 8 counts the mere transit as an infringement.

²¹⁷ Schwenzer, 'Article 42' (n 6) 699-700. Similar view Saidov (n 16) 225. Even though the Schwenzer argues that if the both the State of transit and the State of the destination is the members of the EU, there can be a seizure of the goods when it infringes third-party's IPRs, however, the mere transit does not constitute infringement under the EU. See Case C-23/99 *Commission v. France* [2000] ECR I-7653; Case C-115/02 *Administration des douanes v. Rioglass S.A.* [2003] ECR I-12705. For a detailed analysis see Alexander von Mühlendahl and Dieter Stauder, 'Territorial Intellectual Property Rights in a Global Economy—Transit and Other 'Free Zones' in Wolrad Prinz zu Waldeck und Pyrmont and others (eds) (n 17) 653-673. See Bruno Zeller, 'Intellectual Property Rights & the CISG Article 42' (2011) 15 *The Vindobona J. Intl'L Com. L. & Arb.* 289.

²¹⁸ Schwenzer, 'Article 42' (n 6) 699, Kröll, 'Article 42' (n 40) 654. Zeller (n 217). Zeller also argues that the seller can claim force majeure under Article 79 and defence himself that the seizure of the goods during the transit is an impediment beyond his control.

²¹⁹ Schwenzer, 'Article 42' (n 6) 700. Also supported in Kröll, 'Article 42' (n 40); Rauda/Etier (n 76) 55; Zeller (n 217).

²²⁰ Metzger (n 24) 209.

²²¹ See Zeller (n 217).

parties' contemplated states, the seller's obligation under Article 42 needs to cover the states of transit. As Metzger points out, the contemplation of the parties regarding the states of transit should be checked to hold the seller liable. If the parties did not contemplate the route for transit, the party who was responsible for the carriage of goods, and hence determined the route, needs to be liable for third-party IIP rights that exist in the state of transit. Therefore, if the buyer arranged this carriage, he needs to search the IIP rights in question.

On the other hand, if it is not merely the transit and packaging, storage or processing of the goods in question made under the state of transit, and if the goods are seized because of IPR infringement, the liability depends upon which party gives the instructions for this act.²²²

4. Relevant Time

Under Article 42, there are different relevant times for the different obligations that are undertaken by the seller. The seller is deemed to fulfil his obligation to deliver goods free from third-party IIP rights and claims at the time of the delivery. Thus, if the seller dismisses a third-party's right until the time of the delivery, he should not be held liable for the right which was presented at the time of the conclusion of the contract.²²³ Conversely, if the IPR licence obtained by the seller will expire after the contract conclusion and the goods can cause an infringement of the IPR holder's right over it, what will be the seller's responsibility? Is he under a duty to inform the buyer or should be held liable for third-party IPR infringement? Since the seller must deliver the goods free from IIP rights, his knowledge or awareness of the expiration of an IPR licence should amount to breach of his duty under Article 42.²²⁴

It also can be thought that the relevant time is the time of the conclusion of the contract. Nevertheless, this time is only relevant for the time that the seller has the knowledge or was aware of the rights in question.²²⁵ The seller who obtains knowledge at third-party IPR after this time is only under a duty to inform the buyer.²²⁶ It is also argued that the seller would not know or be aware of any third-party IIP rights before the third-party raised his claim, therefore, he would not be liable to third-party claims raised after the time of the conclusion of the contract.²²⁷ However, it is possible that the seller can be aware of an infringement, especially when the goods he sold are counterfeit in nature.

²²² Schwenger, 'Article 42' (n 6) 668; Rauda/Etier (n 76) 55.

²²³ Kröll, 'Article 42' (n 40) 655; Schwenger, 'Article 42' (n 6) 697-698.

²²⁴ See *CD media case* (n 88). It was stated that '[Seller] undoubtedly had been aware of the termination of the license contract between [Proprietary Company] and [Licensor] when it concluded the contracts in question'.

²²⁵ See Kröll, 'Article 42' (n 40) 654; Rauda/Etier (n 76) 48-49.

²²⁶ Schwenger, 'Article 42' (n 6) 701-702; Rauda/Etier (n 76) 49.

²²⁷ Shinn (n 43) 127.

Also, the seller is only liable for the third-party IIP rights and claims which exist at the time of the conclusion; thus, any IIP rights coming into existence after this time or between the time of the conclusion of the contract and the time of delivery is irrelevant. Accordingly, it is doubtful whether the seller will be liable for third-party IIP rights or claims which are not raised at the time of the delivery. The time for raising an IIP claim by a third-party is irrelevant unless the time for the existence of the rights in question is the conclusion of the contract.²²⁸ Schwerha explains the meaning of ‘delivered free of’, which is ‘free from any potentially colourable claims present at the time of sale, not merely that no actual claim had been asserted.’²²⁹ Schwerha believes that claims raised after the time of the delivery should not be regarded within the scope of the seller’s liability.²³⁰

5. Exclusion of Liability

Buyer’s Knowledge

Article 42(2) specifies when the seller’s liability is excluded. Under Article 42(2)(a), if the buyer ‘knew or could not have been unaware’ of the IIP rights or claims when the contract was concluded, there will not be a liability upon the seller. It is sufficient that the buyer knew of a third-party claim over the goods regardless of his consideration of the validity or seriousness of the claim.²³¹

In terms of the phrase ‘could not have been unaware’, the same interpretation problem for the seller’s knowledge occurs here as discussed above, and whether the buyer is under the duty to inquire is doubted. Use of exactly the same phrase for both parties’ knowledge leads to the conclusion that the standard employed by the article is the same for both parties.²³² It means that the buyer should also make inquiries about IIP rights within the contemplated states. However, within the literature, it is stated that in practice the standard applied for determining the knowledge differs between the contractual parties. It is argued that considering the buyer’s limited knowledge of the goods in question, the buyer is not obliged to make an inquiry about the IIP rights over the goods.²³³ Also, it is considered that imposing the duty to inquire on the buyer would impair the protection which is aimed to provide by Article 42.²³⁴

²²⁸ Kröll, ‘Article 42’ (n 40) 655. Nevertheless third-party’s claims need to be within the time period that the seller obliged to protect the buyer’s interest over the goods in question.

²²⁹ See Schwerha (n 43) 450. See Janal (n 96) 211.

²³⁰ See Schwerha (n 43) 450.

²³¹ Kröll, ‘Article 42’ (n 40) 658.

²³² Shinn (n 43) 125; Rauda/Etier (n 76) 56.

²³³ Schwenger, ‘Article 42’ (n 6) 702; Kröll, ‘Article 42’ (n 40) 658; Janal (n 96) 219; Enderlein (n 6) 183.

²³⁴ Saidov (n 16) 221.

Contrary to this view, French courts have concluded that a buyer within its professional capacity could not have been unaware of infringements of third-party's IPRs.²³⁵ Acknowledgement of knowledge or awareness based on the buyer's professional capacity creates a similar standard to the seller's. Shinn believes that at least in terms of published rights both parties may be deemed to have a duty to inquire.²³⁶ He argues that there should not be any differences between the standard of the parties' knowledge; consequently, he argues that the phrase employed by the article needs to be interpreted as a duty on the parties 'not to be negligent about information.'²³⁷ Even though Shinn supports imposing a duty to inquire on the buyer along with the seller, the standard of the knowledge he proposes cannot be considered as strict as the French courts applied in the cases referred to. While French courts accept that trading in the market in question as a professional is enough to establish the buyer's awareness of third-party IPRs, Shinn does not draw a distinction relying on the professional capacity of the buyer. Smythe does not make any reference to the duty to inquire, but he supports that 'the buyer should normally be presumed to know at least as much as the seller about the laws of the jurisdiction under which any third-party's intellectual property claim would be based.'²³⁸

Nevertheless, this strict interpretation by French courts is criticised by the authors and has lost any support.²³⁹ Kröll disagrees with the decision and argues 'even experienced buyers cannot be assumed to know of all relevant intellectual property rights in their home country.'²⁴⁰ In the *Mussels Case*,²⁴¹ the German buyer purchased mussels that did not comply with German health regulations from a Swiss seller. It was claimed that there is a breach of the seller's obligation under Article 35 regarding the conformity of the goods. The Court ruled that by Article 35(2)(a) did not establish an expectation that the seller would comply with these statutory and public provisions. The court states:

[...] a foreign seller can simply not be required to know the not easily determinable public law provisions and/or administrative practices of the country to which he exports, and that the purchaser, therefore, cannot rationally rely upon such knowledge of the seller, but rather, the buyer can be expected to have such expert knowledge of

²³⁵ *Cour d'appel de Colmar* (France) 13 November 2002 (PACE); *Cour de Cassation* (France) 19 March 2002 (PACE); *Société Ma... R.A.S. v. S.A. T... Diffusion Cour d'appel Rouen* (France) 17 February 2000 (PACE). The court ruled that 'The buyer, as an informed professional, could not ignore the infringing nature of the ribbons which he presented and sold in France; that even more, he has to be informed on the existence of the protected rights in the French market, or even less, to demonstrate that he knows all the information which allow him to avoid the risk of the infringement.'

²³⁶ Shinn (n 43) 125. Shinn accepts the possibility of requiring duty to inquire in accordance with the party who holds the IPRs.

²³⁷ *Ibid.*

²³⁸ Smythe (n 154) 535.

²³⁹ Schwenzer, 'Article 42' (n 6) 702; Beline (n 6) 17. He also criticises French courts view on the ground they set 'a high level of knowledge.'

²⁴⁰ Kröll, 'Article 42' (n 40) 658; Saidov (n 16) 227.

²⁴¹ *Bundesgerichtshof* (Germany) 8 March 1995 (New Zealand mussels case) (UNILEX).

the conditions in his own country or in the place of destination, as determined by him, and, therefore, he can be expected to inform the seller accordingly. [...] ²⁴²

This ruling suggests that it is possible to assert that the buyer should know of the IPRs over the goods in the country where he is located. While the buyer has knowledge of IP law in his country of location, the complexity of the goods subject to IPRs makes it unlikely that he will always exactly know or foresee the IPRs infringement issues. For example, the goods in question may carry certain chips inside, or a software application, that may not be discoverable by the buyer upon simple inspection, since he cannot undertake a comprehensive search for IP without knowing every component of the goods. Also, the buyer may not know the details of the licence agreement put in place by the supplier and the right holder, and he cannot be sure whether the licence also covers the buyer's location. ²⁴³ Therefore, in my opinion, the buyer cannot always obtain the 'expert knowledge' referred to by the court.

The court in *Mussels* case identifies three exceptions to the principle according to which the seller will be responsible for the public requirement of the buyer's jurisdiction. These are: (1) the existence of equivalent standards also in the seller's country. (2) the buyer informs the seller regarding the issue, (3) 'if the relevant provisions in the anticipated export country are known or should be known to the seller due to the particular circumstances of the case.' ²⁴⁴ Concerning the country which is known by the seller, still, the seller's knowledge requirement applies also to the buyer's jurisdiction. ²⁴⁵

Rauda and Etier highlight that when it is expected from the buyer to investigate third-party IIP rights, the seller would easily escape from his liability under the article by claiming that the buyer should either know or be aware of the rights in question. ²⁴⁶ VanDuzer finds this justification reasonable, but still considers that the application of different standards for the same phrase is hard to fit in the CISG. ²⁴⁷ By requiring the buyer's knowledge or awareness, it seeks to prevent the buyer from leaving all the responsibility to the seller's sphere of risk and wilfully ignoring the apparent facts of the situations. ²⁴⁸

²⁴² *New Zealand mussels case* (n 241).

²⁴³ See *HTC v Nokia* (n 188).

²⁴⁴ *New Zealand mussels case* (n 241). See Smythe (n 154). He argues that the seller's liability for Article 42 can only be available under these circumstances.

²⁴⁵ See Peter Schlechtriem, 'Uniform Sales Law in the Decisions of the Bundesgerichtshof' 50 Years of the Bundesgerichtshof: A Celebration Anthology from the Academic Community (2001) (Todd J. Fox translates) <<https://www.cisg.law.pace.edu/cisg/biblio/slechtriem3.html>> accessed 18 November 2018.

²⁴⁶ Rauda/Etier (n 76) 56.

²⁴⁷ VanDuzer 'A Seller's Responsibility' (n 43) 192.

²⁴⁸ Rauda Etier (n 76) 56-57.

On that account, Huber/Mullis's interpretation of the phrase as 'proof of something much closer to "blind eye" recklessness' may be accepted as the standard applicable to the buyer's knowledge.²⁴⁹ Thus, it can be agreed that if the goods carry an internationally well-known trademark or patent or other rights are become known by means of advertisement, the existence of the buyer's knowledge or awareness must be accepted.²⁵⁰

Compliance with the Buyer's instructions

When third-party IPR infringement occurs based on the buyer's instructions applied to the goods, the seller will be excluded from liability under Article 42. Even if the article had been silent on this principle, the seller would be excluded from liability by Article 80 under which a party whose act or omission caused the other's failure of the performance should bear this breach of contract.

The buyer's instructions should be specific and detailed and directly cause the infringement.²⁵¹ Any information or wishes allowing the seller to apply his discretion, so that, it would be possible to comply the buyer's instruction in a non-infringing way, do not lead to the exclusion of the liability.²⁵² In a French case concerned with IPR infringement over the ribbons used within a shoe model, the court ruled that the seller will be excluded from the liability on account of the buyer's infringing instructions and also stated that the buyer's instructions were about the shoe model, not the ribbons.²⁵³ Regarding this fact, it can be asserted that instructions not concerned with the infringing parts should not have been considered while deciding a case.²⁵⁴

The buyer's knowledge or awareness whether these instructions may cause infringement is irrelevant to excluding the seller from the liability.²⁵⁵ The seller who was aware of the detrimental result of these instructions must inform the buyer about it.²⁵⁶

²⁴⁹ Huber/Mullis (n 24) 177.

²⁵⁰ Metzger (n 24) 212; Kröll, 'Article 42' (n 40) 658; Schwenger, 'Article 42' (n 6) 702; Saidov (n 16) 226. He also agrees that in case of well-known trademarks, the buyer 'could not have been unaware.' See *Tribunal de grande instance de Versailles* (France) 23 November 2004 (Counterfeit furniture case) (UNILEX). Under this case, on the ground that the furniture "Le C" which is well-known and published in magazines and catalogues and exhibits in museums, thereof as being a professional in the area both the buyer and the seller 'could not have been unaware' of the counterfeit nature of the goods sold.

²⁵¹ Kröll, 'Article 42' (n 40) 658, Schwenger, 'Article 42' (n 6) 703.

²⁵² Schwenger, 'Article 42' (n 6) 703.

²⁵³ See *Société Ma... R.A.S. v. S.A. T... Diffusion* Case (n 235).

²⁵⁴ However, still the seller's exclusion from the liability is justifiable regarding the knowledge and awareness of the buyer on the IPRs over the ribbons.

²⁵⁵ Schwenger, 'Article 42' (n 6) 703.

²⁵⁶ *Ibid* 703; Secretariat Commentary, 'Article [42] (n 70) 37, note 10; Enderlein/Mascow (n 17) 170; Enderlein (n 6) 184.

3.2.2.3. Notice Requirement

In order to be able to invoke Article 42, the buyer is obliged to notify the seller of third-party IIP rights and claims ‘within a reasonable time after he has become aware or ought to have become aware of the right or claim’ by Article 43. However, the seller who knew of third-party IIP rights or claims cannot rely on the buyer’s failure of giving notice according to Article 43(2).²⁵⁷

Article 43 sets a notice requirement for both articles 41 and 42; consequently, it is necessary to be specific about third-party rights and claims in question. The buyer must specify the type of IPRs raised by third-party and who is the claimant, which should aid the seller in making a defence.²⁵⁸ Regarding the requirement of being specific in the notice given, Beline argues that until a third-party brings a lawsuit or a detailed communication is received from the third-party, the buyer may wait before giving the notice.²⁵⁹ However, if there is a risk of being sued by a third-party, the buyer should not wait until the third-party asserts his IP claim.²⁶⁰

What constitutes a reasonable time within the meaning of Article 43 needs to be addressed. Article 39 also sets a similar duty to notify for non-conforming goods; thus, it is suggested that literature and case law on Article 39 can benefit the interpretation of Article 43.²⁶¹ Reasonableness under Article 39 is interpreted as ‘a short period’ and depends upon the circumstances of each case.²⁶² The same interpretation applies to Article 43, as well.²⁶³ This reasonable time also includes a period for the buyer to obtain legal advice on the nature of the claim and legal situation.²⁶⁴ There are divergent views on the application of the ‘noble month’ approach which constitutes one month as the period of reasonable time within Article 43.²⁶⁵

²⁵⁷ On the other hand, in accordance with Article 44, the buyer may claim some remedies if his failure to give notice based on a reasonable excuse.

²⁵⁸ Ingeborg Schwenzer, ‘Article 43’ in *Schlechtriem & Schwenzer Commentary* (n 6) 707; Schwerha (n 43) 469; Kröll, ‘Article 43’ in Loukas Mistelis and Maria del Pilar Perales Viscasillas (eds) (n 9) 665, Beline (n 6) 19. See *Oberlandesgericht München* (Germany) 9 July 1997 (PACE). The court held that the buyer failed to specify nature of the claim by only stating ‘the products are not conforming to our specifications and cannot be sold to customers’ within their notice.

²⁵⁹ Beline (n 6) 19.

²⁶⁰ See also Schwenzer, ‘Article 43’ (n 258) 708.

²⁶¹ Kröll, ‘Article 43’ (n 258) 664, Harry M. Flechtner ‘Funky Mussels, a Stolen Car, and Decrepit Used Shoes: Non-Conforming Goods and Notice Thereof under the United Nations Sales Convention (CSIG)’ (2008) 26 *BU Int’l LJ* 1, 16.

²⁶² Enderlein/Maskow (n 17) 159; Enderlein (n 6) 172; Kazuaki Sono, ‘Article 39’ CM Bianca and MJ Bonell (eds) (n 116) 309; Ingeborg Schwenzer, ‘National Preconceptions that Endanger Uniformity’ (2007) 19 *Pace International Law Review* 103.

²⁶³ Schwenzer, ‘Article 43’ (n 258) 709; Kröll, ‘Article 43’ (n 258) 666.

²⁶⁴ Schwenzer, ‘Article 43’ (n 258) 709; Kröll, ‘Article 43’ (n 258) 666; Enderlein/Maskow (n 17) 171.

²⁶⁵ For ‘noble month’ see Schwenzer, ‘National Preconceptions’ (n 262), Camilla Baasch Andersen, ‘Article 39 of the CISG and Its Noble Month for Notice-Giving: A (Gracefully) Ageing Doctrine?’ (2012) 30 *JL & Com.* 185; *Amtsgericht Augsburg* (Germany) 29 January 1996 (UNILEX). It was stated that ‘the maximum period of time considered reasonable for the purpose of Article 39(1) was one month after discovery.’ See *Oberlandesgericht Stuttgart* (Germany) 21 August 1995 Appellate Court (UNILEX).

While Kröll and Schwenger support the applicability of this approach,²⁶⁶ Flechtner holds the contrary view because the CISG does not determine a time period, and the presumption of one month as a reasonable time period may create an inconsistency with the CISG's international character.²⁶⁷ Flechtner based his view on the decision given by the Federal Supreme Court on the automobile case.²⁶⁸ Even though the Supreme Court also acknowledged that the buyer failed to notify, the Court held that this 'schematic fixing of the time' could not be accepted.²⁶⁹ When the cases and the literature is examined, it supports that the period for reasonable time needs to be evaluated in accordance with the circumstances of each case.²⁷⁰ It is also accepted that the 'noble month' is set as a yardstick that can aid the judges to decide upon the reasonable time, and regarding the needs of every case, this one month can be expanded.²⁷¹

Considering that Article 42 also covers third-party claims, and accepts that even unfounded claims can raise the seller's liability, the time needed for the buyer to notify the seller may not be extended beyond one month. As soon as the buyer learns that a claim or right is asserted or will be asserted by a third-party, or that there is a risk the goods may infringe third-party's IPRs, he must notify the seller. Whether the buyer would have needed more than one month to give notification can be decided by the judges upon the circumstances of the case.

The reasonable time starts from the time the buyer 'has become aware or ought to have become aware of the right or claim.' When Article 39 is analysed, it is seen that the beginning of this awareness is determined with the application of Article 38 which requires the buyer to examine the goods delivered within a short period. There is a strict relationship between these articles, and failure to examine the goods within a short time also causes failure to give notice to the seller within a reasonable time.²⁷² It can be asked whether the buyer is under a duty to examine the goods in terms of IPR infringement. The duty to examine the goods delivered can be seen as a general requirement that the buyer must follow. However, it has a close relationship with Article 39, and the CISG clearly makes a distinction between the notification requirements for

²⁶⁶ Schwenger, 'Article 43' (n 258) 709; Kröll, 'Article 43' (n 258) 666. See *Bundesgerichtshof* (Germany) 11 January 2006 (Automobile case) (PACE). OLG rejected the buyer's claims because of his failure to give notice within a reasonable time which is interpreted as one month time.

²⁶⁷ Flechtner (n 261) 17-18.

²⁶⁸ *Automobile case* (n 266).

²⁶⁹ *Ibid.*

²⁷⁰ See *Tribunale di Vigevano* (Italy) 12 July 2000 (PACE). It is stated: 'that the "reasonable time" for notice under Art. 39(1) CISG depends on the circumstances of each case and on the nature of the goods.' See *Oberlandesgericht Karlsruhe* (Germany) 6 March 2003 (PACE); *Oberster Gerichtshof* (Austria) 21 March 2000 (UNILEX); *Rechtbank Breda* (Netherlands) 16 January 2009 (UNILEX). Daniel Girsberger, 'The Time Limits of Article 39 CISG' (2005) 25 *JL & Com.* 241, Franco Ferrari, 'Tribunale di Vigevano: Specific Aspects of the CISG Uniformly Dealt With' (2000) 20 *JL & Com.* 225; Kuoppala (n 152); Enderlein (n 6) 167.

²⁷¹ Andersen, 'Article 39' (n 265) 187.

²⁷² Kuoppala (n 152); Sandra Fiser-Sobot, 'Duty to Examine the Goods in International Law of Sales' [2011] *Annals Fac. L. Belgrade Int'l Ed.* 196; Enderlein (n 6) 167.

non-conforming goods and the goods subject to third-party rights and claims. Even though the wording of these two articles is similar and there is benefit from case law and literature on Article 39 when interpreting Article 43, there is no duty to examine the goods for IIP rights.²⁷³

Regarding awareness, the time when the third-party raised or asserted the claims to the buyer can be taken into account.²⁷⁴ What is the meaning of ‘ought to have become aware’ is discussed within the literature especially in terms of whether it imposes a duty to inquire. While examining the seller’s knowledge, it is stated that authors compare the phrase ‘could not have been unaware’ with ‘ought to have become aware’ and take the view that the latter one requires an inquiry.²⁷⁵ However, as different standards of knowledge for each party is accepted, consequently, the buyer’s duty to inquire about third-party’s IIP rights is denied.²⁷⁶ Thus, requiring the buyer to make an inquiry may be considered as unreasonable and inconsistent with Article 42.²⁷⁷ Accordingly, ‘ought to have become unaware’ is interpreted as the buyer must not be negligent about any indication of third-party IIP rights or claims which are raised or will be raised.²⁷⁸

Contrary to Article 39(2), the buyer does not have to give notice within a two-year period. Non-conformity of the goods can be examined as soon as the buyer takes the delivery of the goods or if it is a hidden defect can be discovered later (but liability does not extend more than two years). However, third-party IPRs cannot be discovered until the third-party is aware of the infringement or until the goods used or resold in the contemplated countries.²⁷⁹ Therefore, there is no time limit required for notifying the seller.

3.3. Third-party Intellectual Property Rights under the SGA 1979

The SGA s12 imposes implied terms on the seller. The seller must have a right to sell the goods and impliedly warrants that the goods will be free from any charge or encumbrances and that the buyer will enjoy quiet possession. In case of failure to comply with these obligations, it is possible that the goods in question may be seized; or the buyer is required to pay damages or charges to the rightful owners, or the holder of these charges. Thus, contrary to the buyer’s aim of undisturbed enjoyment of or use of the goods that he purchased, he can be left with legal problems. In the light of the nature of IP, which enables the right holder to enforce his rights

²⁷³ See Fiser-Sobot (n 272) 199; Huber/Mullis (n 24) 177; Kröll, ‘Article 43’ (n 258) 666.

²⁷⁴ Kröll, ‘Article 43’ (n 258) 666.

²⁷⁵ Honnold, *Uniform Law* (n 10) 395.

²⁷⁶ See ‘3.2.2.2.-5. Exclusion of Liability’; Kröll, ‘Article 43’ (n 258) 666.

²⁷⁷ Beline (n 6) 9-10.

²⁷⁸ Schwenger, ‘Article 43’ (n 258) 709; Kröll, ‘Article 43’ (n 258) 666’ Enderlein/Maskow (n 17) 171, Zeller (n 217) 301.

²⁷⁹ Kröll, ‘Article 43’ (n 258) 668; Schwenger, ‘Article 43’ (n 258) 709.

against any potential infringer, and the availability of IP remedies such as injunction, damages or destruction of the goods, the buyer's enjoyment of the goods without any disturbance can be hampered by third-party IPRs over the goods he purchased. Therefore, third-party IPRs over the goods and the seller's liability to the buyer are covered by s12. Even though s12 does not make any explicit reference to IPRs within its wording, third-party IPRs can either result in the seller's failure to have a right to sell (such as selling without the required licenses) or prevent the buyer's enjoyment of quiet possession.

The effect of third-party IPRs over the goods on the seller's liability under s12 has not been discussed exhaustively within the literature. This lack of focusing on IPRs might stem from lack of awareness recent technological changes which have accelerated the production of goods subjected to IPRs,²⁸⁰ or from the limited case law produced to date. Regarding increasing number of the goods subject to IPRs, it can be asserted that s12 will be applied to cases resulting from third-party IPRs. On that basis, how a third-party's IPRs could cause a breach of s12 will be examined. This examination will also address the extent to which a seller can be held liable to a buyer in terms of the obligations imposed upon him by subsections of s12.

3.3.1. The Seller's Right to Sell the Goods

The SGA s12(1) requires the seller to have a 'right to sell' at the time of the passing of the property, which is as follows:

In a contract of sale, other than one to which subsection (3) below applies, there is an implied term on the part of the seller that in the case of a sale he has a right to sell the goods, and in the case of an agreement to sell he will have such a right at the time when the property is to pass.

This obligation under s12(1) is an implied condition, whereas s12(2) is an implied warranty, and the remedies for breach of each of these terms differ under the SGA. These remedies are analysed in depth in the following chapter: here it will be helpful to provide only a brief explanation of these terms. A condition is regarded as the backbone of the contract, which means the existence of the contract is dependent upon the fulfilment of the event or promise made by the parties.²⁸¹ A warranty is defined by the SGA s61(1) as 'an agreement with reference to goods which are the subject of a contract of sale, but collateral to the main purpose

²⁸⁰ See Robert Bradgate, *Commercial Law* (3rd Ed, Butterworths 2005) 272. Bradgate mentions that industrialisation cause the production of complex goods. Robert Bradgate, Consumer Rights in Digital Products: A Research Report Prepared for the UK Department for Business, Innovation and Skills, (September 2010) available at <<http://www.bis.gov.uk/assets/biscore/consumer-issues/docs/c/10-1125-consumer-rights-in-digital-products>> accessed 9 May 2015.

²⁸¹ Bridge, *The Sale of Goods* (n 2) 510-525, *Benjamin's Sale of Goods* (n 2) 10-026, See *Cehave NV. v Bremer Handelsgesellschaft mbH (The Hansa Nord)* [1976] Q.B. 44, at 58; *L. Schuler A.G. Appellants v Wickman Machine Tool Sales Ltd. Respondents* [1974] A.C. 235.

of such contract, the breach of which gives rise to a claim for damages, but not to a right to reject the goods and treat the contract as repudiated.’ Since that the warranty does not affect the main purpose of the contract when it is breached it is possible to claim damages, but not the repudiation of the contract or rejection of the goods.²⁸² As is explained below, these differences are also important between the fields of application of these subsections.

The meaning of ‘right to sell’ has been debated within the literature. What is actually undertaken by the seller by means of holding ‘a right to sell’ is examined to reveal the effect of IPRs over the goods on the seller’s liability under s12(1). The main question is whether the existence of a third-party IPR which gives rise to a claim for the delivery of the goods to the right holder,²⁸³ seizure of it,²⁸⁴ or injunctions restricting the buyer’s right to use the goods would constitute a breach of s12(1). As shall we see, the limits have provided a clear answer to this, despite the theoretical debate in the literature.²⁸⁵

3.3.1.1. A Right to Sell

The term ‘contract of sale of goods’ is defined by s2(1) as a transfer of the property in the goods in return for money, consequently ‘right to sell’ is considered as the right to transfer the property or the title to the goods.²⁸⁶ It is considered that s12(1) guarantees the quality of the title to be transferred.²⁸⁷ However, Bridge believes that s12 does not impose a duty to transfer title or ownership and, these concepts are not the concern of s12 because no reference to these phrases is made within the section’s language.²⁸⁸

In *Rowland and Divall*,²⁸⁹ Atkin LJ stated that ‘there can be no sale at all of goods which the seller has no right to sell. The whole object of a sale is to transfer property from one person to another.’²⁹⁰ This judgement was found erroneous by academic commentators. Bridge observed

²⁸² The SGA s11(3).

²⁸³ CPDA 1988 s99, Patent Act s61.

²⁸⁴ CPDA 1988 s100.

²⁸⁵ See Battersby and Preston ‘The Concepts of “Property,” “Title” and “Owner” Used in the Sale of Goods Act 1893’ (1972) 35 MLR 268; L C Ho, ‘Some Reflection on “Property” and “Title” in the Sale of Goods Act’ [1997] CLJ 571; Lisa McClure, Chantal Stebbings, and Gordon Goldberg, ‘History of a Hunt for Simplicity and Coherence in the Field of Ownership, Possession, Property and Title’ (1992) 7 Denning L. J. 103.

²⁸⁶ PS Atiyah, John N Adams, Hector MacQueen, *Atiyah’s Sale of Goods* (12th Ed, Longman 2010) 108. See Bradgate, *Commercial Law* (n 280) 357.

²⁸⁷ See Janet Ulph, ‘Conflicts of Title and the Obligations of the Seller’ in Ewan McKendrick (eds), *Sale of Goods* (LLP 2000), Battersby/Preston (n 285).

²⁸⁸ Bridge, *The Sale of Goods* (n 2) 177. Similar account see Sean Thomas, ‘Goods with embedded software: Obligations under Section 12 of the Sale of Goods Act 1979’ (2012) 26 International Review of Law, Computers & Technology 165,170.

²⁸⁹ [1923] 2 K.B. 500. In this case, a car was sold to a buyer who then resold it after a while it was discovered that the car was stolen. The dealer (the first buyer) reimbursed the local buyer and claimed his purchase money from the seller on the ground of a total failure of consideration.

²⁹⁰ *Ibid.* at 506-507.

that this view ‘plainly goes too far’ because it leads one to accept that ‘there would be no property transfer’ when there is a breach of s12(1).²⁹¹ Similarly, Ulph criticises it as being ‘too dogmatic.’²⁹² Meanwhile, as Bradgate correctly points out if there were no sale as accepted under the case, there would be no availability of applying s12 to the case.²⁹³

On the other hand, Battersby and Preston established their criticism from a different angle. They defined a sale of goods contract as a contract under which the seller transfers ‘a title to the absolute legal interest in the goods.’²⁹⁴ They also claim that it is not required to transfer a ‘good title’ to the buyer, the seller can only transfer the title he holds, and if this is lesser than the one agreed to be transferred, he is in breach of s12.²⁹⁵ That means transferring the possessory title to the buyer is sufficient to accept that there is a contract of sale.²⁹⁶ Although Bridge does not make any reference to title or ownership under the section, he also states that the existence of a sale of goods can be acknowledged ‘even if the seller has no property rights in the goods apart from the bare possession.’²⁹⁷ As noted above, s12(1) determines the quality of title to be transferred by the seller, so if the seller has no right to sell, this situation should not be accepted as there is any sale, but the focus should instead be on whether the seller transferred the title in accordance to s12(1).

Whereas s61 describes the ‘property’ as ‘the general property in goods’, it is not evident whether ‘property’, as mentioned under s12, ‘is used in a way akin to the term ‘title’. Battersby and Preston maintain that ‘property’ and ‘title’ are similar concepts.²⁹⁸ Because they argued that the heading to sections 16-20 is ‘Transfer of Property as between the Seller and Buyer’ refers to ‘transfer’ not property and stated “ ‘property’” in sections 16-20 means the same as in section 1, i.e. the title to the absolute legal interest vested in the seller.’²⁹⁹ On the contrary, Ho proposes that property and title are not the similar, but related concepts. In that regard, he defines the sale of goods as a contract under which the seller transfers his ‘all or the residuary rights claims over the goods to the buyer’.³⁰⁰

²⁹¹ Bridge, *The Sale of Goods* (n 2) 181.

²⁹² Ulph (n 287) 269.

²⁹³ Bradgate, *Commercial Law* (n 280) 360. Also Battersby/Preston (n 285) 274.

²⁹⁴ Battersby/Preston (n 285) 275.

²⁹⁵ *Ibid.* 272-273.

²⁹⁶ They believed that as ‘possessory title’ transferred, there is a sale of goods contract came into existence.

²⁹⁷ Bridge, *The Sale of Goods* (n 2) 182.

²⁹⁸ Battersby/Preston (n 285) 275-281.

²⁹⁹ Battersby/Preston (n 285) 280.

³⁰⁰ Ho (n 285) 581. Also, see Lisa McClure and others (n 285). According to these authors, in order to transfer the ‘property’, at first the seller must have it, and for the ‘title’ there is no need for the goods to have been owned by the seller previously, and the buyer can acquire it by the law.

If 'property' and 'title' were similar, there would be no significance of inserting s12(3) which states that 'in the case of which there appears from the contract or is to be inferred from its circumstances an intention that the seller should transfer only such title as he or a third person may have.' Regarding this subsection, transfer of a title with lesser interest is available under the circumstances mentioned above. If it accepted that title and property are similar, transfer of the title to the goods would constitute full interest over the goods likewise the property, and the lesser interests that the seller holds would not have been acknowledged as amounting a sale of goods in certain circumstances. With regard to s12(3) and s21 to s26 under the heading 'Transfer of Title', it should be accepted that the terms 'property' and 'title' are different concepts, but, as Ho suggests, they are related to each other.

Battersby criticises the argument produced on the contrary by illustrating the similarity between 'property' and 'title.'³⁰¹ He revised his previous argument and stated that 'Thus, where the buyer acquires "title" to the goods, what the buyer acquires is the seller's rights to the goods (*i.e.* "property"), but takes those rights free from rights which bound the goods in the hands of the seller.'³⁰² This approach may be followed when an IPR over the goods in question raised by a third-party.

In addressing the s12(1) the quality of the title transferred by the seller, Bridge argues that the seller is under the duty to transfer of the 'best possessory entitlement in the world.'³⁰³ Similarly, Bradgate requires the seller to transfer the best title to the absolute interest.³⁰⁴ On the contrary, Ulph advances the view that while the seller's duty is not to confer a best title, it is expected that he will transfer 'the whole of his legal interest in the goods.'³⁰⁵ Whereas in the Law Commission's view the seller is under the duty to transfer a 'good title' to the goods.³⁰⁶

Atiyah approaches 'right to sell' as 'the *power* to vest the general property in the goods'.³⁰⁷ According to Atiyah, the SGA does not require the seller to be the owner of the goods and the

³⁰¹ G Battersby, 'A Reconsideration of "Property" and "Title" in the Sale of Goods Act' [2001] JBL 1.

³⁰² *Ibid* 7.

³⁰³ Bridge, *The Sale of Goods* (n 2) 177. See *Benjamin's Sale of Goods* (n 2) 4-001; Bradgate, *Commercial Law* (n 280) 358.

³⁰⁴ Bradgate, *Commercial Law* (n 280) 358; See *Atiyah's Sale of Goods* (n 286) 108. Atiyah uses the term 'good title'.

³⁰⁵ Ulph (n 287) 264.

³⁰⁶ Law Commission, *Implied Terms in Contracts for Supply of Goods* (Law Com. No 95, 1979) para 35. See Anthony M. Honoré, 'Ownership' in AG Gordon (eds) *Oxford Essays in Jurisprudence a Collaborative Work* (OUP 1961)107, 141. Honoré states: 'The SGA makes a sharp distinction between the holder of the title, who can give a 'good title' to the goods and holders of lesser titles only the former can make a valid disposition of the thing by way of sale.'

³⁰⁷ *Atiyah's Sale of Goods* (n 286) 108.

main point here is to be able to transfer the property in goods.³⁰⁸ Conversely, Goode believes that a ‘right to sell’ is not akin to a power of sale.³⁰⁹ He bases his view on the possibility of being able to transfer a title to the buyer that revokes the true owner’s title over the goods in question because of the exceptions to the *nemo dat* rule. In such cases, the seller does not have any power of sale because he either is not the true owner or does not have consent from the true owner. For this reason, Goode does not accept the explanation of a right to sell as a power to sell. Ulph also shares this view and criticises the decision held in *Barber v NWS Bank Plc*,³¹⁰ in terms of the failure of drawing a distinction between a ‘right to sell’ and ‘power of sale’.³¹¹ She considers that while the *nemo dat* exceptions make it possible to pass a good title to a buyer, the question of how a good title has been acquired is ignored.³¹² Thus, she argues that if the seller has a right to sell, there would not be a breach of s12(1), whereas requiring the seller to have the seller’s power to sell may lead to the seller being liable under s12(1).³¹³

Atiyah also considers the cases where the seller does not hold both a ‘right to sell’ and the ‘power to vest the title’ at the same time.³¹⁴ It is not always sufficient to have a power to vest title in order to fulfil the undertaking under s12(1), such as when a third-party has a right to seize the goods in question by virtue of his superior title. The approach that should be followed to decide whether the seller has a right to sell is the view given in *Niblett Ltd v Confectioners’ Materials Co, Ltd.*,³¹⁵ where Scrutton L.J. stated that: ‘If a vendor can be stopped by process of law from selling he has no right to sell.’³¹⁶ This given view also fits with Battersby’s view that the right to sell means that the buyer is entitled to take the goods free from rights over the goods.³¹⁷

In light of the arguments presented above, a third-party IPR over the goods sold prevents the seller from transferring a good title to the goods. Additionally, since a third-party can exercise

³⁰⁸ Atiyah’s *Sale of Goods* (n 286) 108. See Michael Bridge, ‘The Title Obligations of the Seller of Goods’ in Ewan McKendrick and NE Palmer (eds) *Interest in Goods* (2nd ed, LLP Publishing 1998) 310. See *Karlshamns Oljefabriker v Eastport Navigation Corp (The Elafi)* [1982] 1 All ER 208, 215. Mustill J stated: ‘This involves no promise about the seller’s own proprietary rights, only that he will be able to create the appropriate rights in the buyer. A contract of sale can perfectly well be performed by a seller who never has title at any time, by causing a third-party to transfer it directly to the buyer.’ A seller who acts on behalf of a third-party who gives legal order to the seller, has a right to sell without being owner of the goods. Also, in between the time of the conclusion of the contract and time when the property is to pass, the seller can obtain either the property of goods or consent of the true right holder.

³⁰⁹ Ewan McKendrick (eds), *Goode on Commercial Law* (4th Ed, Penguin Books 2010) 312.

³¹⁰ [1996] 1 WLR 641.

³¹¹ See Ulph (n 287) 267.

³¹² *Ibid* 266.

³¹³ Ulph (n 287) 267.

³¹⁴ Atiyah’s *Sale of Goods* (n 286) 109.

³¹⁵ *Niblett* (n 3).

³¹⁶ *Ibid* 398.

³¹⁷ Battersby (n 301) 7.

his rights, which would either results in delivery of the goods to him or prevents the buyer from using them, there can be a ‘process of law’ as a result of which the seller breaches his duty under s12(1).

3.3.1.2. Relevant Time

Under s12(1), the time that the seller should have a ‘right to sell’ is considered on the basis of whether there is a sale or an agreement to sell. In the case of the former, the seller’s liability arises at the time of the conclusion of the contract, whereas with the latter, the relevant time is the time ‘when the property is to pass.’³¹⁸ The time of passing the property is of importance when determining whether s12(1) is breached.³¹⁹ According to Bridge, when there is an agreement to sell there are two obligations presented: first, a promise that the seller’s right to sell will exist at the future date and second, this promise emerges when the seller has the right to sell at the future date.³²⁰ Considering the second obligation, the buyer cannot claim that the seller has failed to meet his obligation under s12(1) until that future date.³²¹ This understanding leads to the conclusion that in the case of an agreement to sell, the seller can ‘feed’ the title until the property is to pass.³²² Therefore, if the seller will be able to acquire a good title by this time, he will not be in breach of s12(1).³²³ Here, the issue which I would like to raise is different from the feeding title before the buyer repudiates the contract due to the breach of s12(1).³²⁴ It is argued that the buyer cannot claim that the seller did not have the right to sell when the contract was concluded, because, in the case of an agreement to sell, the exact time for ascertaining whether the seller has the right to sell is the time when the property is to pass.

With regard to IPR, the seller can acquire the right to sell by way of obtaining any necessary licence from the IPR holder. In addition, if the infringement occurs on the grounds that the goods bear a specific name, design, or colour or are packaged in a particular manner, if the

³¹⁸ *Kulkarni v Manor Credit (Davenham) Ltd* [2010] EWCA Civ 69, para 9. Lord Justice Rix stated that the requirement which the seller will have a right to sell when the property is to pass when there is an agreement to sell ‘reflects a completely standard way of the world.’ He then continued: ‘Sellers and buyers are for ever agreeing to sell and buy what sellers at the time of agreement do not then own, for the goods in question have to be fabricated or sourced and acquired before the time when property is to pass.’

³¹⁹ See s16 through s26.

³²⁰ Bridge, *The Sale of Goods* (n 2) 176.

³²¹ *Ibid.* Bridge points out that based on anticipatory repudiation, if it is clear that the seller will fail to have a right to sell at the future date, it might be possible to claim the seller’s breach of s12(1). *Benjamin’s Sale of Goods* (n 2) 4-005.

³²² *Benjamin’s Sale of Goods* (n 2) 4-011.

³²³ *Goode on Commercial Law* (n 309) 314; Ulph (n 287) 265.

³²⁴ See *Butterworth v Kingsway Motors Ltd* [1954] 1 WLR 1286. It was a hire-purchase agreement, however, before acquiring the property the hirer sold the car and, afterwards in subsequent sale agreement was concluded. After having the use of the car for a while, the claimant intended rescind the contract and claimed the purchase price. The hirer paid the outstanding balance and acquired the good title. Pearson J held that the acquisition of the title fed the defective title.

seller may be able to remove these or package the goods in another manner before the property is to pass so that he will not be in breach of s12(1).

Since third-parties' IPRs over the goods hamper the seller's ability to transfer a good title, the effect of their existence on the seller's duty needs to be considered. Any IPRs which come into existence after the seller passes the property or after the time of the sale do not constitute a breach of s12(1). However, if the third-party's IPRs arise between the time the agreement to sale is concluded and the time when the property is to pass, what will be the seller's liability in accordance with s12(1)? Alternatively, what will be the seller's liability in the event of a sale where there was an IPR over the goods when the contract concluded, which subsequently expires?³²⁵ The wording of the section expressly indicates the relevant time to be 'when the contract was concluded', and this provides the answer to later questions.

3.3.1.3. Third-parties' IPRs and the SGA 12(1)

There are two leading cases in relation to this topic which are *Niblett Ltd v Confectioners' Materials Co, Ltd*,³²⁶ and *Microbeads A.G. and Another v Vinhurst Road Markings Ltd*.³²⁷ In *Niblett* the seller agreed to sell 3000 tins of condensed milk from New York to London.³²⁸ It was agreed that the milk should bear certain brand names. While 2000 tins of condensed milk with the brand 'Freedom' were delivered without controversy, the rest of the order arrived at Customs bearing the name 'Nissly', and this led to a claim of trademark infringement by Nestlé. On that account, the goods were detained at Customs. The buyer sued the seller on the ground of a breach of s12.

In the first instance court, Bailhache J. felt himself bound by the decision in *Monforts v. Marsden*.³²⁹ While Lord Russell in *Monforts v. Marsden* held the view that the right to sell is

³²⁵ See UK Patents Act 1977 s25: 'A patent granted under this Act [...] shall continue in force until the end of the period of 20 years beginning with the date of filing the application for the patent or with such other date as may be prescribed.' UK Trade Marks Act 1994 s42: '1)A trade mark shall be registered for a period of ten years from the date of registration.

(2)Registration may be renewed in accordance with section 43 for further periods of ten years.'

³²⁶ *Niblett* (n 3).

³²⁷ *Microbeads* (n 3).

³²⁸ *Niblett* (n 3).

³²⁹ (1895) 12 R.P.C. 266. In the case, the machine sold by Montforts infringed a previous patent belonging to a third-party (Moser) who was then granted an injunction. Marsden claimed the price of the machine on the ground that the patent was valid, and he would be able to use it. Even though the sale contract was concluded in 1891 before the SGA 1893 came into the force Lord Russell Killowen applied it. The judge believed that Montforts had the property and passed it by the sale. Lord Russell argued that the right to sell is one thing which means being able to pass the property to the buyer, and existence of any superior title which causes the disturbance of the buyer's possession is another thing. In terms of s12(1) Lord Russell rejected that the seller failed to pass the property, he also believed that there is no implied warranty by stating that 'The vendor of a patent, in the absence of express agreement, does not warrant that the patent may be worked free from disturbance by any other patentee.'

independent of the buyer's right to use the goods, Scrutton LJ disagreed with him, considering the possibility that the rightful owner of the patent could have stopped the vendor from selling it, thereby, holding that the seller had a right to sell is not a simple matter to sort out.³³⁰ Scrutton L.J. stated that: 'If a vendor can be stopped by process of law from selling he has no right to sell.'³³¹ Also, Atkin LJ held the view that the seller had no right to sell, stating: 'It may be that the implied condition is not broken if the seller is able to pass to the purchaser a right to sell notwithstanding his own inability; but that is not so here, for the Nestlé Company had the same rights against the appellants as they had against the respondents.'³³²

When the *Niblett* case is examined, it can be seen that the seller's right to sell does not mean merely the seller's ability to pass the property in the goods. The judges in the case attributed a wider effect to s12(1).³³³ Also, it can be argued that distinguishing the seller's right to sell from the buyer's ability to use or resell the same goods is not a fair approach to be followed in dealing with s12(1). An IPR, in particular, does not affect the transfer of property, whereas, by means of the rights accorded by special acts,³³⁴ the right holder can disturb the possession of the goods, whereby the buyer can be prevented from using or reselling the goods. Since the seller could have been confronted with the third-party's IPRs infringement claims before transferring the property in the goods to the buyer, the risk of being sued by an IPR holder, a risk which already existed over the goods, should not be left to the buyer. Accordingly, rather than examining the seller's ability to pass the property in the goods, a superior right over the goods which can cause a disturbance of the possession needs to be revealed in terms of s12(1).

In that regard, it is important to note that s12(1) would not be applicable if it was understood from the circumstances of the contract that the intention was different. Scrutton LJ believed that if the sale contract is for a specific brand, such circumstances might arise in which the seller should not be held to have warranted the right to sell.³³⁵ It is possible that the buyer may give instructions that the goods should bear a particular name, design, colour, software, or be packed in a specific manner, all of which can constitute an infringement of a third-parties' IPRs. Nevertheless, it is doubtful whether, based upon the buyer's instructions, the seller should be excluded from liability under s12(1).

³³⁰ *Niblett Ltd v Confectioners' Materials Co, Ltd* [1921] 37 TLR 653, 655.

³³¹ *Niblett* (n 3) 398.

³³² *Ibid* 401, 402.

³³³ *Niblett* (n 3) 395.

³³⁴ See Patents Act 1977 s61(1); Trademark Acts 1994 s14-20; the CPDA 1988 s97A,99,100,111,114 and so on.

³³⁵ *Niblett* (n 3) 398.

The questions of whether the seller is aware of possible IPR claims over the goods as a result of the buyer's special instructions, and whether the seller is under the duty to inform the buyer about any such issues are not clear. Therefore, these are required to be examined. While there is no answer to these questions within the wording of s12 the SGA 1893, s12(4) of the SGA 1979 provides that the seller should inform the buyer about all charges and encumbrances that he knows of before the contract is made when the seller is only obliged to transfer such title he or a third-party has [subjected to s12(3)]. Although the s12(4) employs the words 'charges or encumbrances' which are laid out in s12(2)(a), by virtue of due diligence, the seller may be considered to be under a duty to inform the buyer about possible IPRs claim that would constitute superior rights to the goods, in the event that the buyer gives the seller special instructions.

In *Microbeads A.G. and Another v Vinhurst Road Markings Ltd*,³³⁶ an English buyer bought road-marking equipment from a Swiss seller between January and April 1970. The buyer withheld the payment on the basis that the goods were not of the expected quality. When the Swiss seller claimed the balance payment, the buyer defended himself on the ground of the seller's breach of s12 due to an English company's patent for a road-marking apparatus. However, the patent application was made in 1966, and the specifications were published in November 1970. On the preliminary issue, it was held that there was no breach of s12. On appeal, the court repeated that s12(1) had not been breached, because the seller had the right to sell when the property passed.

In his ruling, Lord Denning referred to the *Niblett* case and defined the right to sell as 'not only a right to pass the property in the machines to the buyer but also a right to confer on the buyer the undisturbed possession of the goods.'³³⁷ The seller must have a 'right to sell' at the time of the sale, the patent specifications had been published after the sale was concluded. Since there was no existing patent at that time, the buyer could not have been disturbed; consequently, the seller did not breach s12(1).³³⁸ Roskill LJ also agreed that the buyer acquired 'a perfectly good title to the machines'.³³⁹

Azzurri Communications Ltd v International Telecommunications Equipment Ltd (t/a SOS Communications) was about the trademark infringement of telephone handsets supplied by SOS to Azzurri who then resold them to AA.³⁴⁰ After the failure was revealed, Azzurri sought

³³⁶ *Microbeads* (n 3).

³³⁷ *Ibid* 221-222.

³³⁸ *Microbeads* (n 3) 222.

³³⁹ *Ibid* 226.

³⁴⁰ [2013] EWPC 17.

the assistance of Avaya, the manufacturer and registered trademark holder of the handsets. Avaya discovered that the handsets were either refurbished or ‘grey market’ products. Avaya claimed the infringement of its trademark and requested that all the infringing handsets be delivered to Avaya as a relief, and Azzurri complied with this request. Azzurri then initiated a claim based upon the breach of s12(1). In the light of the *Niblett* and *Microbeads* cases, and the fact that SOS accepted the infringement, the court held that the seller had breached s12(1).³⁴¹

During the case, whether the buyer was obliged to deliver the goods up to Avaya, and whether (as on the facts of the *Niblett* case) the buyer could stop trademark infringement by removing Avaya’s names from the handsets, were questioned by SOS.³⁴² Considering the meaning given in *Niblett* ‘right to sell’ as ‘being stopped by process of law’, it is of importance whether the trademark holder (Avaya in this case) has a right to delivery of infringing goods. The court examined the relevant provisions,³⁴³ and held that Avaya indeed had a right to claim delivery up,³⁴⁴ and that Azzurri acted reasonably in agreeing to deliver the handsets to Avaya.³⁴⁵ Nevertheless, it can be questioned whether, when there was no court order for delivering up to the goods, this could still be deemed to fall within the scope of ‘process of law’. What precisely constitutes ‘process of law’ has not been elaborated, but in my opinion, these words should be understood not only as an actual/ongoing litigation raised by an IPR holder but also as a potential threat of future litigation. Hence, it should not make a difference who ordered the delivery up since the IPR holder is eligible to obtain this injunction from a court at any point.³⁴⁶

In terms of the buyer’s ability to stop infringement, even though these questions are related to the buyer’s duty to mitigate the loss, I would highlight that avoiding of the infringement by way of choosing an alternative way of reselling or using the goods in question should not be treated as if the seller had the right to sell. The relevant time is either the conclusion of the contract or when the property is to pass; therefore, until these specific times if the seller can obtain a good title, it can be deemed that there is no breach of s12(1) has occurred.³⁴⁷

3.3.2. Warranty of Freedom from Encumbrances and Quiet Possession

Section 12(2) states:

³⁴¹ *Azzurri* (n 340) paras 48-49.

³⁴² *Ibid* para. 53.

³⁴³ See UK Trademarks Act 1994 s16, and s19, The IP Enforcement Directive (2004/48) Article 10

³⁴⁴ *Azzurri* (n 340) paras 55 through 63.

³⁴⁵ *Ibid* paras 77-78.

³⁴⁶ See *Ibid* para 63. The court also did not consider who ordered the delivery up.

³⁴⁷ See ‘3.3.1.3. Relevant Time’.

In a contract of sale, other than one to which subsection (3) below applies, there is also an implied warranty that—

(a) the goods are free, and will remain free until the time when the property is to pass, from any charge or encumbrance not disclosed or known to the buyer before the contract is made, and

(b) the buyer will enjoy quiet possession of the goods except so far as it may be disturbed by the owner or other person entitled to the benefit of any charge or encumbrance so disclosed or known.

There are two implied warranties imposed on the seller by s12(2) which are that the goods are and will be free from any charge and encumbrances before the property is to pass, and that the buyer's enjoyment of quiet possession is to be provided. Quiet possession covers cases of any disturbance which may preclude the buyer from the enjoyment of quiet possession at a date later than the actual sale of goods.³⁴⁸ Therefore, this subsection provides a continuous warranty to the buyer for any disturbances that have resulted not only due to the seller but also due to a third-party.³⁴⁹

This section examines the subsections in the light of IPRs to establish whether IPRs can be accepted as falling within the scope of 'charge or encumbrances' referred by s12(2)(a), and the effect of IPRs over the enjoyment of quiet possession and the extent of the seller's liability.

3.3.2.1. Freedom from Charge or Encumbrances

What amounts to 'charges and encumbrances' within the scope of s12(2)(a) is not defined in the SGA. In *The Barenbels* case, a ship was sold to the buyer, and the seller guaranteed that the ship was 'free from all encumbrances and maritime liens or any other debts whatsoever.'³⁵⁰ However, the ship was then detained in Qatar because of the seller's indebtedness to his creditors. What should be understood by the word 'encumbrances' was considered in this case. Sheen J. held that 'the word "encumbrances" referred to claims, liens and liabilities attaching to the ship, ...'³⁵¹ Lord Justice Goff held that the word 'encumbrances' covers 'proprietary and possessory rights.'³⁵² Even though the case did not fall within the scope of the SGA s12(2), the reference made to 'encumbrances' can be applied to s12(2)(a) by analogy. On this basis, any proprietary and possessory rights over the goods sold give rise to a breach of the seller's duty under s12(2)(a).³⁵³

³⁴⁸ *Goode on Commercial Law* (n 309) 314.

³⁴⁹ Ulph (n 287) 281.

³⁵⁰ *Athens Cape Naviera SA v Deutsche Dampfschiffahrts-Gesellschaft Hansa AG (The Barenbels)* [1985] 1 Lloyd's Rep. 528.

³⁵¹ *The Barenbels* (n 350) 530.

³⁵² *Ibid* 531.

³⁵³ *Atiyah's Sale of Goods* (n 286) 115; Ulph (n 287) 282; *Benjamin's Sale of Goods* (n 2) 4-023.

Whether the term ‘charges and encumbrances’ covers IPRs requires closer attention. Do IPRs constitute proprietary or possessory rights? On the consideration of its monopolistic nature by which the IP right holder can claim his right against others, its transferability to others and its controllability by the owner, it is supported that IPRs are indeed proprietary rights.³⁵⁴ It is argued that ‘intellectual property rights are rule governed privileges that regulate the ownership and exploitation of abstract objects in many fields of human activity.’³⁵⁵ Although the property nature of IP comes into existence in relation to the intangible object, as Eastbrook argues, the intangible and physical properties should be treated ‘identically’.³⁵⁶

Moreover, as explained in Chapter 2 above, although IPRs are intangible property, IPRs affect the tangible goods to which they are attached.³⁵⁷ The right holder can claim removal of the parts that are either subject to or are infringing the IPRs, and until this claim is met the right holder may apply injunctions to prevent the use or resale of these goods as a whole. Therefore, the proprietary nature of IP means that any tangible goods purchased by a buyer can be affected by an IPR over them and the buyer cannot solely have the freedom to enjoy property rights embedded in the goods in question. This would indicate that third-parties’ IPRs over the goods in question are also covered as ‘charge or encumbrances’ within s12(2)(a).

Bradgate acknowledges that s12(2) plays a significant role regarding digital products which are at a high risk of IPRs infringement.³⁵⁸ He gives the example of the deletion of Orwell’s books from Kindle by Amazon without any authorisation given by or prior knowledge of his customers.³⁵⁹ Electronic copies of books can be subject to copyrights whose holders do not allow them to be published in the electronic forms. This copyright means that there was a ‘charge or encumbrances’ over the e-books sold by Amazon, and therefore that the duty to provide books free thereof was breached.³⁶⁰ This issue is an interesting point that raised as an issue within the scope of subsection (2).

³⁵⁴ Robert P. Merges, ‘What Kind of Rights Are Intellectual Property Rights?’ in Rochelle Dreyfus and Justine Pila (eds) *The Oxford Handbook of Intellectual Property Law* (OUP 2017); Henry E. Smith, ‘Intellectual Property as Property: Delineating Entitlements in Information’ (2007) *The Yale Law Journal* 1742; Frank H. Easterbrook, ‘Intellectual Property Is Still Property’ (1990) 13 *Harvard Journal of Law and Public Policy* 108.

³⁵⁵ Peter Drahos, *A Philosophy of Intellectual Property* (Aldershot:Dartmouth 1996) 5.

³⁵⁶ Eastbrook (n 354) 118.

³⁵⁷ Ian Eagles and Louise Longdin, *Refusals to Licence Intellectual Property: Testing the Limits of Law and Economics* (Hart Publishing 2011) 119. See also ‘2.2.What is Intellectual Property?’

³⁵⁸ Bradgate, ‘Consumer Rights’ (n 280) 20.

³⁵⁹ Ibid footnote 25. See Amazon Kindle users surprised by 'Big Brother' move, *The Guardian*, (17 July 2009) <<https://www.theguardian.com/technology/2009/jul/17/amazon-kindle-1984>> accessed 20 November 2017;

Amazon sued for Kindle deletion of Orwell, CBS News, (31 July 2009) <<http://www.cbsnews.com/news/amazon-sued-for-kindle-deletion-of-orwell/>> accessed 20 November 2017.

³⁶⁰ See Farhad Manjoo, Why 2024 will be like Nineteen Eighty-Four, *Slate*, (20 July 2009)

<http://www.slate.com/articles/technology/technology/2009/07/why_2024_will_be_like_nineteen_eightyfour.html> accessed 20 November 2017.

It can also be asked whether these IPRs should have been already granted over the goods in question. In terms of the IPRs grant, this refers to the situation where the goods subject to IP as a whole or partially by its components are produced in accordance with authorisation by the right holder. The goods carry IPRs, however, dealing of these goods contrary to the right holders' consent or the sale or offers to the sale of these goods within the territories which are not covered by the licence agreement infringes the IPRs; thus the breach of s12(1) arises. Conversely, while there may not be any registered IPRs over the goods sold, but dealing of these (such as use, sale, import, or export) in particular territories may cause an infringement of a third person's IPRs. This infringement may occur because the goods with which the buyer deals infringe the subject matter granted to a third party as an IPR in the respective territory. Considering these possibilities, which of the situations should be covered by s12(2)(a) as a charge or encumbrances should be asked. In the wording of the sub-section, it is not specified that the charge and encumbrances are required to have arisen over the goods sold. The significant issue is to provide the goods free from any charge and encumbrances. Therefore the subsection covers anything that has an adverse effect on the enjoyment of the goods, or that prevent the use or resell of them. Also, it can be observed in the *Niblett* case there is no need that the goods to carry the IPR-related parts, instead the mere infringement of third-party's IPR suffices the 'charge or encumbrances' within the subsection.

Arguably, s12(2)(a) carries no practical importance because of the lack of an example (real or hypothetical) which falls solely within s12(2)(a), but not within s12(1).³⁶¹ The main difference between these sections concerns the time at which the goods must be free of IPRs. When the relevant times set under s12(1) and s12(2)(a) are examined, it can be seen that the former requires the goods to be free of IPRs either at the time of the sale if it is a sale agreement, or at the time when the property is to pass if it is an agreement to sell, whereas s12(2)(a) requires IPR free goods 'until' the time of passing the property. As it is discussed above, in the case of a sale agreement, the buyer cannot claim the breach of s12(1) if third-parties IPRs does not exist when the contract is concluded. In this situation, if a third-party's IPRs comes into existence between the time of conclusion of the contract and the time of passing of the property in the goods, the buyer can assert the breach of the implied warranty.³⁶² Similarly, Chalmers

³⁶¹ Bridge, *Sale of Goods* (n 2) 5.35; See *Goode on Commercial Law* (n 309) 314.

³⁶² See also *Benjamin's Sale of Goods* (n 2) 4-023. He states that 'It is, however, only possible to apply the s12(2)(a) wording literally to the case of an agreement to sell specific goods in the ownership of the seller, since the goods may be unascertained or in the ownership of some third-party or even not in existence at the time of an agreement to sell.'

takes the view that this subsection applies to cases where the seller has a right to sell, but there are also third-party rights over the goods.³⁶³

Regarding the relevant time, while the time for being free from the charge of encumbrances is until the time when the property is to pass, the ‘charges or encumbrances’ should not be disclosed to the buyer before the contract is to make. The subsection looks for the existence of these charges and encumbrances before the sale has been concluded. In the *Barenbels* case, the creditor’s right to detain the ship originated from a court order made after the time of the sale, although the debt existed before the sale. Atiyah argued that there were no proprietary or possessory rights at the time of the sales contract, and hence, there were no encumbrances over the ship at that time.³⁶⁴ This consideration raises the question of whether, in cases where there is a right, the validity or applicability of which is dependent upon a court order and the order is obtained after the sale concluded, the seller will be excluded from his liability under s12(2)(a). The answer to this question is of particular importance to any consideration of third-party IPRs because the remedies, such as injunction, delivery up and so on, are obtained from a court after the infringement occurs. Considering this issue, it means that a third-party can become aware of the infringement of his IPRs after a sale is concluded but before the property is to pass, and a court order can be obtained at this specified time.

In my opinion, even though the court order gives rise to a disturbance or existence of ‘charge or encumbrances’, such an order can only be based upon an IPR which already exists. Therefore, if the rights already exist, the court order is only a matter of time. Unless the court order is obtained at the time after the property is to pass, the seller should be liable for these charges or encumbrances, which existed before the contract was made. Similarly, Benjamin stated that the ‘mere existence of a charge or encumbrance over the goods’ is sufficient, and there is no need for a claim to have already been made by a third-party.³⁶⁵

3.3.2.2. Quiet Possession

Section 12(2)(b) creates an implied warranty protecting the buyer’s enjoyment of quiet possession which is not limited to the time when the property is to pass and therefore provides a continuous warranty. According to paragraph (b), the buyer will not be protected against any disturbance by the owner or any third-party which is disclosed to or known by him.

³⁶³ Sir Mackenzie Dalzell Chalmers, *Chalmers' Sale of Goods Act 1979* (18th Ed, Butterworths 1981) 116; *Atiyah's Sale of Goods* (n 286) 116.

³⁶⁴ *Atiyah's Sale of Goods* (n 286)116.

³⁶⁵ *Benjamin's Sale of Goods* (n 2) 4-023.

While it is guaranteed by a warranty that the buyer's quiet possession will not be disturbed, under which conditions it will be held that the possession is disturbed are not specified within s12(2)(b). In *Rubicon Computer Systems Ltd v United Paints Ltd*, it was said that: 'The obligation is not merely to supply a system which will function on the day of delivery (or commissioning, if that is later), but a system which will continue to function thereafter in a reasonable manner for the lifetime of the equipment.'³⁶⁶ In the *Niblett* case, it was argued that there is no enjoyment of quiet possession when the buyer 'can only get possession of them at the trouble and expense of defacing them.'³⁶⁷ Consequently, if the disturbance prevents the expected use or resale of the goods by the buyer, it can be accepted that the warranty for the enjoyment of the quiet possession has been breached.

While the buyer is protected against the breach of contract or tort committed by the seller,³⁶⁸ the scope of the seller's liability in terms of the third-party's interferences is debatable. In *The Playa Larga*, Ackner LJ stated that the obligation under s12(2)(b) does not aim to provide protection to the buyer against 'every disturbance that might occur.'³⁶⁹ In the case, it was emphasised that if the third-party whose wrongful act disturbs the buyer's possession is 'totally unconnected with the seller', the seller cannot be deemed as liable.³⁷⁰ Therefore, in terms of the IPRs over the goods it needs to be considered whether the seller can be held liable at all, and if so, what extent his liability covers. As acknowledged by the *Niblett* case, an IPR holder can disturb a buyer's possession of the goods.³⁷¹ Yet, it is apparent that in IPR infringement cases, this disturbance is made by a third-party who may not be in contractually connected to the seller. However, the intention behind requiring a connection between the seller and the third-party in the aforementioned opinion may be to highlight that the seller cannot be responsible for burglary or theft.³⁷² In any case, the required connection between the seller and

³⁶⁶ (2000) 2 TCLR 453. In the case, the seller had delivered and installed the computer system which can be accessible by the seller also after the contract concluded. The seller wrongly installed a time lock in the computer, thus the buyer could not access to the computer. Hence, the buyer could not enjoy quiet possession and was faced with disturbances of this right.

³⁶⁷ *Niblett* (n 3) 391.

³⁶⁸ See *Rubicon* (n 366), It was the seller who caused interference by wrongly installing a time lock in the computer.

³⁶⁹ *Empresa Exportadora De Azucar (CUBAZUCAR) v Industria Azucarera Nacional SA (IANSA) (The Playa Larga)* [1983] 2 Lloyd's Rep. 171,178. The seller agreed delivery a cargo of sugar to the buyer. the seller's government decided to stop the commercial activities with the buyer's country at the time the ship (The Playa Larga) was on port and had been discharging and the other ship (Marble Islands) was on its way. Hence the Playa Larga was withdrawn to prevent the delivery of the cargo and the other one was diverted from its road.

³⁷⁰ *Ibid* 178, See *Louis Dreyfus Trading Ltd v Reliance Trading Ltd* [2004] EWHC 525 (Comm). In the case, there was an exclusivity agreement with the seller and the third-party who had an injunction to prevent the good to be delivered the buyer. Since the buyer's possession was disturbed by the seller's wrongful interferences, the seller was in breach of the section.

³⁷¹ *Niblett* (n 3) 402. Atkin LJ stated: 'The owners of the patent had no right or ability to pass the property, but they had a right to disturb the possession of the defendant in that case.'

³⁷² *Ulph* (n 287) 281-282; *Bridge, Sale of Goods* (n 2) 5-41.

third-party should not be considered a formal one. Rather, it should be examined whether the third-party's interferences are based upon a right over the goods in question or not. When this point is ascertained, it can be concluded that the seller can be held in breach of s12(2)(b) when a third-party IPRs holder disturbs the buyer's possession on the goods.

On the other hand, it is argued that the warranty provided under 12(2)(b) is similar to 'the covenant for quiet enjoyment of real property.'³⁷³ In the case of real property, while the lawful acts of third-parties give rise to the liability imposed by the covenant, cases of a paramount title are excluded.³⁷⁴ However, such exclusion of the liability in terms of the sale of goods is rejected, because disturbance by title paramount has been accepted as falling within the scope of s12(2)(b).³⁷⁵ Therefore, title paramount cases which are based on IPRs over the goods are indeed within the scope of the seller's liability.

In terms of the time at which liability comes into existence, Benjamin states that since the subsection employs the word 'possession', the warranty covers situations arising after the delivery of the goods, regardless of the passing of the property in the goods.³⁷⁶ Thus, it is established that the seller's liability arises after the time of the delivery, the time at which a disturbance of quiet possession exists requires attention. In other words, whether the disturbance should exist at the time of the sale or after the time when the property is passed must be determined. In *The Playa Larga*, it was suggested by the seller that the liability should be restricted to 'the time of the performance' during which 'an actual or potential impediment to quiet enjoyment' exists.³⁷⁷ It was suggested that a latent defect must have been present at the time of performance, even if it was only revealed after delivery. Even though Ackner LJ intended to follow that restriction on the duration of the seller's liability, he was bound by the decision given in *Microbeads* and stated '[...] that there can be a breach of s. 12(2) even if there is no impediment of free enjoyment of the goods actually or potentially in existence at the time of delivery.'³⁷⁸ In the *Microbeads* case, a sale agreement was concluded in 1970 and the third-party's patent was granted in 1972. The third-party then claimed infringement of his patent over the goods sold after delivery was made and the property passed.³⁷⁹ The seller claimed that the defect in title must exist at the time of sale, whereas Lord Denning stated: 'the words "shall have and enjoy"

³⁷³ *Niblett* (n 3) 403.

³⁷⁴ *Benjamin's Sale of Goods* (n 2) 4-026.

³⁷⁵ See *Mason v Burningham* [1949] 2 KB 545; *Microbeads* (n 3) 223, 227; Hugh Beale and Others (eds), *Chitty on Contracts* (31st Ed, Sweet & Maxwell 2012) 44-078.

³⁷⁶ *Benjamin's Sale of Goods* (n 2) 4-025.

³⁷⁷ *The Playa Larga* (n 369) 178.

³⁷⁸ *Ibid* 179.

³⁷⁹ *Microbeads* (n 3).

apply not only to the time of the sale but also to the future. “Shall ... enjoy” means in the future. If a patentee comes two or three years later and gets an injunction to restrain the use of the goods, there would seem to be a breach of the warranty.’³⁸⁰

Microbeads is a distinctive case for the breach of enjoyment of quiet possession in comparison with the other cases. In the *Niblett* case, the breach of enjoyment of quiet possession was acknowledged due to the detention of the goods at Customs and the fact that *Nestlé’s* threat could prevent the resale of the goods in question.³⁸¹ The infringed trademark had already been registered at the time of the sale, and there was a latent defect in terms of the packaging of the goods.³⁸² Similarly, in the *Azzurri* case, after a fault occurred in the installed handsets sold by SOS, the buyer required assistance from Avaya, which was the trademark holder of the goods.³⁸³ After the investigation, the trademark infringement was revealed, and Avaya demanded that the counterfeit goods be delivered to them. In this case, also, the trademark had been granted prior to the sale contract, and the goods delivered were counterfeit.

In contrast to these cases, where the breach was caused by third-party IPRs which had existed before the delivery of the goods, Lord Denning, in *Microbeads* gave a justification that included patent rights granted long after the delivery by interpreting the words in the subsection as covering ‘future cases.’ Although the wording of s12 has changed, the use of the words ‘the buyer will enjoy the quiet possession’ also leads to the conclusion that future cases are still covered by the warranty.³⁸⁴ However, what should be understood by ‘future cases’ deserves attention. Does ‘future cases’ refer to the time for raising a claim on a right which already existed at the time of the contract, or does it cover any claim based on a right coming into existence at any future date after the delivery? It is difficult to deduce a clear answer to these questions since no particular duration of this liability is specified. That is to say; there is no temporal limit to the seller’s liability under s12(2)(b). Therefore, the warranty under s12(2)(b) is deemed a ‘unique’ obligation.³⁸⁵ According to Bridge, the breach can occur within the period in which ‘the buyer retains an interest in the goods.’³⁸⁶ The only limitation offered for the duration of liability is six-year limitation period stipulated by the Limitation Act 1980.³⁸⁷

³⁸⁰ *Microbeads* (n 3) 222.

³⁸¹ *Niblett* (n 3) 393.

³⁸² See *The Playa Larga* (n 369) 179.

³⁸³ *Azzurri* (n 340).

³⁸⁴ Thomas (n 288) 171.

³⁸⁵ Bridge, ‘Title Obligations’ (n 308) 306.

³⁸⁶ *Ibid*, Bridge, *Sale of Goods*, (n 2) 193.

³⁸⁷ See section 5.

Since the section does not limit the period for which the seller can be held liable for disturbance of quiet possession, the seller is at risk of providing a warranty covering the entire period the buyer uses the goods in question. In a hypothetical case, a buyer may purchase a 3D printer to use in his factory to produce new products to sell. The buyer might then use the printer for five years without any problem. Then, after five years another company is also producing 3D printers could claim that the buyer must cease using the printer based on patent rights which may have been registered only two months ago. The newly registered patent is related to a component of the old machine which has not been protected by IPRs, but the removal of this component makes difficult to use the printer. Apparently, the buyer's enjoyment of quiet possession is disturbed in such cases. However, returning the seller, who has had no relationship with the buyer since he sold the printer, does not seem fair under such cases. If we hold the seller liable for rights which did not exist prior to sale nor came into existence during the time when the sales contract was being concluded, it needs examination whether this destroys the security of trade and, whether it would be tolerable for the seller to become liable in such a case.

Lord Denning justified his decision by stating that: 'It may be the seller is innocent himself, but when one or other must suffer, the loss should fall on the seller: because, after all, he sold the goods and if it turns out that they infringe a patent, he should bear the loss.'³⁸⁸ It is an acceptable principle that the buyer should not be disturbed after the sale. Nevertheless, holding the seller liable for all disturbances, even those which were not registered prior to the sale nor came into existence at the time of sale, seems an extension of his liability. On the other hand, the absence of any temporal limit within the wording of s12 and the SGA as a whole can be regarded as a deliberate silence of the lawmakers. As a result of this, a wide interpretation may be made; thus, the seller may be held liable for the rights which will be granted at a future date after the time of the delivery. In addition to this, in *The Playa Larga*, it was admitted that this warranty is 'necessary for the business efficacy of the contract.'³⁸⁹

Whereas the seller's liability can be extended to future cases, it is then of concern whether the seller continues to provide this warranty when the goods are resold to a sub-buyer. The wording of the sub-section, namely that 'the buyer will enjoy quiet possession', leads to the conclusion that s12(2)(b) does not cover the sub-buyers' quiet possession. Hence, the buyer cannot claim any indemnity under this subsection due to his sub-buyer claiming that his enjoyment of quiet

³⁸⁸ *Microbeads* (n 3) 223.

³⁸⁹ *The Playa Larga* (n 369) 180.

possession was breached.³⁹⁰ Furthermore, Thomas expressed concern that while a buyer can claim breach of quiet possession for a third-party's IPRs, even those which are claimed or come into existence after the delivery was made, he will be deemed liable to his sub-buyer on the ground of s12(1) for the same goods.³⁹¹ Consequently, the time at which third-party IPRs comes into existence or at which the claim is made by a third-party play a significant role in determining the scope of liability set under s12. As mentioned above, the remedies offered under these sub-sections differ. Therefore, the limits of the liability undertaken by the seller to the buyer and the buyer against his sub-buyers, will not be akin to each other.³⁹² It is problematic to provide different levels of protection for the same goods and the same rights over them. However, the liabilities under s12 are set clearly. Therefore, the seller and the buyer will be liable in accordance with either s12(1) or s12(2).

This subsection also employs the words 'charges and encumbrances', however, there is no reference made to this phrase either within the subsection or in the case law dealing with quiet possession. Hence, we reiterate the explanation of these words provided above within the discussion about the subsection (a).³⁹³ Accordingly, these charges and encumbrances must be proprietary or possessory rights over the goods and do not cover situations arising from a contractual right.³⁹⁴

3.4. Comparison of the CISG and the SGA 1979

The examination of the rules for the seller's liability for third-party IPRs over the goods under each legal instrument reveals the difference between the CISG and the SGA, as well as some similarities. The main difference is the existence of a specific reference to IPRs found in the CISG, whereas under the SGA, the IPRs issues are solved either within the sphere of the seller's right to sell or the enjoyment of quiet possession. The lack of specific reference to IPRs within the SGA can be attributed to the low awareness of IPR issues at the time it was drafted. From the drafting history of the CISG; it is observed that at the beginning the IPRs issues are considered within the scope of 'defects in title' similarly to domestic laws approach similarly English law. Although the CISG distinguishes third-party IPRs and other proprietary rights,

³⁹⁰ Bridge, *Sale of Goods* (n 2) 5-39.

³⁹¹ Thomas (n 288) 171.

³⁹² Atiyah's *Sale of Goods* (n 286) 115. He states that section 12(1) allows recover of the price of goods whereas it is possible to demand additional damages under section 12(2). From the context of the paragraph, it may be understood that Atiyah prefers section 12(2) because of the ability to obtain damages.

³⁹³ See '3.2.2.1. Freedom from Charge or Encumbrances'.

³⁹⁴ *The Barenbels* (n 350) 532.

various objections towards the inclusion of these issues within the CISG and low awareness of IPRs similarly to English law led the drafters' failure to foresee potential IPR problems.³⁹⁵

A similarity exists between s12(1) and Article 41 in terms of their aims to ensuring that the goods will be transferred without any third-party disturbance which may result in preventing the enjoyment of quiet possession. Although it seems that Article 41 refers to the transfer of property likewise the SGA s12(1), the CISG does not expressly deal with the passing of the property, and this issue is left to the applicable domestic law regulation. Nevertheless, on the ground of the examination of Article 41, it is seen that the rights *in rem* trigger the seller's liability. The CISG lays down a duty to deliver the goods free from any third-party rights and claims on the seller, and explicitly refers to third-parties, since by this wording, Article 41 differs from the wording of the SGA s12(1) which refers to the seller's right to sell.

In terms of third-party IPRs over the goods purchased, the seller's obligation under the CISG is to deliver goods 'free from any right or claim of a third party based on industrial or other intellectual property', whereas under the SGA the seller is liable for third-party IPRs over the goods on the grounds either that he does not 'have a right to sell',³⁹⁶ or that he did not deliver the goods 'free from any charge or encumbrances',³⁹⁷ or failed to ensure 'enjoyment of quiet possession.'³⁹⁸ Under the SGA, the seller can be held liable in three different situations; however, the strictness of the liability is different according to the subsection applies to the case. While s12(1) is an implied condition, the breach of which gives rise to the termination of the contract, the implied warranties set under s12(2) are subsidiary terms, the breach of which is not so serious as to cause termination.³⁹⁹ Even though, it seems that three different subsections give rise to claim the seller's liability when there is a third-party IPRs occur, the extent of the liability under its two provisions is not identical. On the other hand, while drafting Article 42, the intention was to avoid creating strict liability given the territoriality of IPRs. In that regard, it can be claimed that the breach of implied warranties under SGA s12(2)(a) and (b) give rise to the limited liability, which brings somewhat resembles with Article 41. Although the scope of limitation employed within these rules under s12(2) and Article 41, comparing s12(1) and (2) together, the liability for breaching s12(2) is not as broad as s12(1).

³⁹⁵ See '3.2.2.1. Historical Background of Article 42'.

³⁹⁶ The SGA s12(1).

³⁹⁷ The SGA s12(2)(a).

³⁹⁸ The SGA s12(2)(b).

³⁹⁹ See *Benjamin's Sale of Goods* (n 2) 10-015-10.017, SJ Stoljar 'Conditions, Warranties and Descriptions of Quality in Sale of Goods—I.' (1952) 15 MLR 425.

In terms of the reference to IPRs, this lack of specific reference under the SGA raises questions as to whether third-party IPRs are covered by the right to sell or amounts to ‘charge or encumbrances.’ In *the Monforts* (which was referred in the *Niblett*), the judge drew a distinction right to sell and the existence of any superior title.⁴⁰⁰ Therefore, it was impossible to bring the IPRs issues within s12 based on this distinction. Nevertheless, this distinction has not been applied to further cases, and the court stated that ‘If a vendor can be stopped by process of law from selling he has no right to sell.’⁴⁰¹ Also, it should be noted that third-party IPRs amount to charge and encumbrances within the meaning of s12(2)(a) and can cause a breach of enjoyment of quiet possession. However, in recognising these third-party IPRs within the sphere of s12 depends upon the interpretation of courts. For example, in a criminal law prosecution for trademark infringement, the defendants imported goods which carried trademarks for which the manufacturer did not have any authorisation by the right holder, and although a significant portion was authorised use, their sale was contrary to the licence.⁴⁰² In relation to the goods which had authorised use of the trade mark, Lord Hughes stated that

these defendants have no proprietary right in the trade marks. They do have a right in the goods which they have bought, but the 1994 Act does not stop them selling them, except if they wish to do so whilst still with the misleading and infringing trade mark attached. The 1994 Act does not, therefore, deprive the defendants of any property which they have.⁴⁰³

In this case, the court did not take into account ‘right to sell’ within the meaning of s12(1). It can be seen that similarly to *the Monforts*, this court also believed passing the property is one thing and the existence of any superior title over the goods is the other. Although the case was not specifically related with a sale of goods and s12, the decision leads an implication that the courts consider the superior title over the goods, due to IPRs, as a separate issue from the passing the property. Hence, in my view, the applicability of s12 to third-party IPRs cases is not indisputable.

Whereas, under Article 42 it is apparent that if third party rights based on IIP, the article applies to the cases. However, the question here is what is the definition of IIP which can be employed when determining the application of Article 42 instead of Article 41. It is proposed that along with the WIPO’s definition of IPRs, the IPRs granted under national laws, regardless of their classification and the type of protection provided under these national laws should be covered by Article 42. Instead of questioning whether third-party IPRs within the scope of the article,

⁴⁰⁰ *Monforts* (n 329).

⁴⁰¹ *Niblett* (n 3) 398.

⁴⁰² *R. v C* [2017] UKSC 58.

⁴⁰³ *Ibid* [19].

what amounts to IPRs which are covered within the scope of Article 42 is examined in the CISG. The latter question can be resolved easily in the light of the Secretariat Commentary and the literature. However, the applicability of s12 to IPRs issues has not been made crystal clear by the literature and case law.

When comparing the scope of the liability under these instruments, the main difference draws the attention is the limitation that imposed on the seller's liability by the CISG Article 42. Since the CISG applies to international sales contracts, it is intended not to impose on the seller an extensive burden to guarantee a worldwide warranty. The CISG, thus, restricts the liability by reference to the specific territory, the seller's knowledge and the relevant time. In terms of the territorial limitations, the seller provides protection from third-party IPRs only within the states either where the goods will be used or resold, or the buyer's place of business. It is acceptable to set territorial restrictions on the seller's liability within the CISG. However, Article 42 leaves the determination of the states where the goods are used or resold to the contemplation of the parties, which leads to several questions. How it will be established that the contemplation was made, and are the parties allowed to choose contemplation of both states where the goods are used or resold, and how many states can be contemplated by the parties? Answers to these questions were attempted in previous sections of this chapter. Although ascertaining the sphere of applicability of the seller's liability is not straightforward due to the vagueness of the article's wording, within the case law it has not been caused such trouble.⁴⁰⁴

Whereas, as being a national law instrument, such a potential burden is not a consideration for the SGA. Even though the SGA does not limit the territories where the IPRs infringement can be claimed and protects the buyer worldwide, the buyer's protection under the CISG should not be interpreted as restricted compared with the SGA regarding the territories covered by these rules. Because the infringement comes into existence where the buyer deals these goods by way of importation, sale, exportation or alike, the third-party IPRs will be a problem where the buyer undertakes these activities. Therefore, if the buyer does not deal these goods in every state in the world, it is only required to protect him within the territories he undertakes commercial activities. As far as the buyer shares the information about the states in which he uses or resells the goods in question, there will be no problem within the scope of liability under the CISG. On the other hand, the broader warranty provided by the SGA in terms of the territory can make the buyers feel more secure when trading over the goods they bought.

⁴⁰⁴ The state contemplated by the parties was discussed in the *CD media case*, and the court of first instance's failure to determine the States under which the seller's liability comes into existence was criticised. *CD media case* (n 88).

The CISG requires the seller's knowledge or awareness of third-party IPRs in order to hold him liable. Unless the seller has the knowledge or could not have been unaware, the buyer cannot claim that the seller breached his duty under Article 42. Since this limitation is crucial for protecting the buyer from third-party IPRs holders, the threshold of the seller's liability determines the applicability of the article. It is supported that Article 42 leads to the recognition of a duty to investigate third-party IPRs by the seller. Nevertheless, this duty to inquire does not impose strict liability upon the seller despite the concerns of whether receiving an inquiry from the seller extends the scope of his liability. In my opinion, the duty to inquire can be seen as a 'subordinate obligation' to determine whether the seller has been aware of the IPRs in question.⁴⁰⁵ In addition to inquiries on the existence of IPRs, the seller's professional capacity is considered when the seller's knowledge is examined.

On the contrary, the SGA does not require the seller's knowledge or impose a duty inquire to him. Therefore, it can be concluded that liability under the SGA is a strict liability imposed upon the seller regardless of his knowledge or even his awareness of the problem.⁴⁰⁶ The lack of such limitations or of the duty to investigate under the SGA may be because s12 does not target only IPRs issues. The absence of the requirement for the seller's knowledge under the SGA expands the possibility of protecting the buyer for numerous IPRs issues.

The relevant times for establishing the seller's liability under the CISG and the SGA requires an examination for the purposes of comparison. As mentioned above, the SGA sets different times for establishing the liability. Under the SGA s12(1), the time when the seller should have a right to sell is either the time of the sale when there is a sale agreement or when the property is to pass in the case of an agreement to sell. The CISG determines liability by reference to the time of the delivery; therefore, the seller under the CISG can solve the IPRs issues between the time of the conclusion of the contract and the time of the delivery. Whereas, the requirement for 'right to sell' at the conclusion of the contract under s12(1), the seller will be deemed in breach of the sub-section if there has been third-party IPRs over the goods when the contract was concluded. The cure of title similar to the CISG is not available under the SGA once the property has been transferred.⁴⁰⁷ Nevertheless, it is accepted that if the seller feeds the defect in title before the buyer treats the contract as repudiated, the buyer's right to repudiate will be

⁴⁰⁵ See 3.3.2.2.-3. 'Seller's Knowledge'.

⁴⁰⁶ *Benjamin's Sale of Goods*, (n 2) 4-002.

⁴⁰⁷ Ulph (n 287) 271.

affected.⁴⁰⁸ However, the buyer still claims damages based on that ‘the seller had originally no right to sell the goods.’⁴⁰⁹

In terms of the time when the property is to pass, the issue is settled between s16 and s26 under the SGA. According to s17, if it is a sale of specific or ascertained goods, the property is to pass at the time when the parties intend it to be transferred. Thus, the seller must have a right to sell at the time of the contract. If the sale contract is made for unascertained goods, the property is transferred when these goods are ascertained under s18. Under the CISG, Article 31 determines when the seller is deemed to have fulfilled his delivery obligation. According to it, the delivery is made: if the sale contract also covers the carriage of the goods, by handing over the goods to the first carrier or if the contract for the specific goods or unidentified goods which are required to be manufactured or produced by placing the goods at the buyer’s disposal, or by placing the goods in question at the buyer’s disposal at the seller’s place of business.

The relevant time for the seller’s obligation under of s12(2)(a) is the time ‘until the property is to pass.’ However, s12(2)(b) provides that the seller be liable for any disturbance which comes into existence after the delivery is made. Also, there is no temporal duration for the seller’s liability. The relevant time set for the disturbance of quiet possession is therefore completely different from the one set under Article 42. Firstly, Article 42 does not cover any third-party IPRs raised after the conclusion of the contract. By the time required for the existence of IPRs to the conclusion of the contract, the CISG covers only a limited number of third-party IPRs. However, the SGA covers not only the IPRs which exist at the time of conclusion of the contract but also ones arising after delivery is made. There is no protection for the CISG buyer even for third-party IPRs guaranteed after the contract is made, while the SGA covers post-sale infringement claims.

There is a similarity between the CISG and the SGA regarding the buyer’s knowledge which causes the exclusion of the seller’s liability. Article 42 does not cover the cases where ‘the buyer knew or could not have been unaware of the right or claim.’ Similarly, the seller’s obligation under s12(2) does not extend to charges or encumbrances disclosed to or known by the buyer. Although both of these rules includes the buyer’s knowledge as an exclusion of the seller’s liability, how these instruments assess the buyer’s knowledge requires attention. The CISG Article 42(2) contains the similar wordings for both the seller’s and the buyer’s knowledge; unfortunately, it raises the criticism as being vague. As mentioned previously, the

⁴⁰⁸ *Benjamin’s Sale of Goods* (n 2) 4-011.

⁴⁰⁹ *Ibid.*

wording for the seller's knowledge is interpreted as imposing the duty to inquire, but even the buyer's knowledge is determined according to the same wording, the buyer is not under the duty to inquire about the IPRs. It is only suggested that the buyer's knowledge can be tested based on 'proof of something much closer to "blind eye" recklessness,'⁴¹⁰ and the buyer's professional capacity is taken into consideration.

However, the SGA does not determine the assessment of the buyer's knowledge. The wording of s12(2)(a) and (b) employ the phrase 'charge or encumbrances not disclosed or known to the buyer.' Regarding the disclosure, it can be fulfilled by identifying the existing charge or encumbrance to the buyer either by the seller or the third-parties. However, there are still such questions like how it can be evidenced that third-parties have disclosed these charges or encumbrances, or is it reasonable to expect that the buyer should trust these third-parties or the information they gave. On the other hand, by the phrase 'known to the buyer' it can be claimed that the buyer's 'actual' knowledge is required. However, as discussed in the seller's liability under the CISG, it is difficult to ascertain the 'actual' knowledge. The s12(2) raises more questions as to the scope of actual knowledge? Despite that, the CISG's wording is criticised as being vague, with the assistance of the literature and the case law, at least a minimum ground for its application is determined.

In terms of the seller's title, s12(3) provides an exclusion which reads '[...] a contract of sale in the case of which there appears from the contract or is to be inferred from its circumstances an intention that the seller should transfer only such title as he or a third person may have.' When it is apparent from the contract, or how it can be inferred from the circumstances, are not clear either within the wording of the section itself or from the cases.⁴¹¹ In addition to the buyer's knowledge excluding the seller's liability under Article 42, the buyer's specific instructions regarding 'the technical drawings, designs, formulae or other such specifications' are counted as an exclusion when these infringe third-party IPRs.⁴¹²

Another difference between s12 and Article 42 is third-party IPRs 'claims' which trigger the seller's liability under the CISG. Considering that the CISG applies to the international sales contracts, and giving the emphasis on the buyer's expectation of not buying a lawsuit,⁴¹³ under the CISG the buyer should not have to wait until third-party's IPR infringement claims are resolved. Regardless of the claim being ill-founded or well-founded, the seller's liability arises.

⁴¹⁰ Huber/Mullis (n 24) 177.

⁴¹¹ *Benjamin's Sale of Goods* (n 2) 4-032, 4-033.

⁴¹² Article 42(2)(b), See 3.2.2.2.-5. 'Exclusion of the Liability'.

⁴¹³ Honnold, *Uniform Law* (n 10) 386.

It is also possible to apply Article 42 even third-party has not asserted his claim, but there should be a considerable risk of encountering an action over the goods in the future. This inclusion of claims within the sphere of Article 42 can be accepted as advantageous for the buyer who trades internationally. Waiting until the nature of the claim is determined to be able to apply the seller's liability may cause more damage to the buyer than the existence of third-party IPRs over the goods. The buyer may avoid the use or resale of the goods in question until the true nature of the claim is discovered; however, the court may announce that the claim is unfounded. Whereas by covering the claims, at least the buyer can demand the clarification the situation from the seller and defend himself against the third-parties based on the seller's knowledge on the goods.

Extending the seller's liability to the sub-buyers is a remarkable difference laid under the CISG. Under the CISG, the states where the buyer's sub-buyer will use or resell the goods in question is acknowledged as within the scope of seller's liability.⁴¹⁴ Whereas, the SGA does not extend the liability to the sub-buyers. In that regard, s12(2) is attracted criticism because that while a buyer can claim the seller's liability based on the breach of enjoyment of quiet possession, the same third-party IPRs lead to the buyer's strict liability to his sub-buyers based on s12(1).⁴¹⁵ On the contrary, a CISG buyer is protected for third-party IPRs that affect his sub-buyers, and in addition, his liability for these issues to the sub-buyers may not be same as the seller. Because the liability under Article 42 requires the seller's knowledge which also depends upon his professional capacity, the buyer's knowledge bar would not have been similar to the seller in the original contract regarding the possibility that the buyer has not manufactured the goods in question. When this line of liability is considered in an international sales context, the possibility of the buyer not being liable to the sub-buyers possibility for the same goods in question can be considered beneficial for him.

3.5. Conclusion

In conclusion, while the CISG deals specifically with IPR problems, by imposing limitations it restricts the extent of the seller's liability in relation to the sphere of application and the time for the existence of third-party IPRs. Even though the SGA was not drafted in contemplation of international sales and IPR issues, its provisions on the relevant time for the existence of third-party IPRs enable it to protect the buyer beyond the protection given under the CISG. However, there is a problem with the scope of application s12 to third-party IPRs cases and the

⁴¹⁴ Kröll, 'Article 42' (n 40) 653.

⁴¹⁵ Thomas (n 288) 171.

lack of clarity of assessing some of its wording in practice (such as what amounts the charge or encumbrances or how the buyer's knowledge is assessed). Nevertheless, the availability for applying Article 42 based on the claims and the extension of the liability to the sub-buyers are advantageous for the buyers. The buyer is not left in the position to prove that the third-party IPRs ill-founded, without any proof the buyer can apply the seller's liability, and the seller can help to defend this claim. Also, when it is the sub-buyer, not the buyer himself encounters with third-party IPRs over the goods, the buyer can return the seller and claim that the seller is breached his obligation under Article 42.

Despite the CISG's specific focus on IPRs, Kröll's argument referring to Article 42 as a 'rudimentary regime' still constitutes an important criticism. However, the vagueness of the article is a result of the drafters taking into account the international character of the CISG, and the difficulty for a seller of knowing each domestic law or providing a worldwide guarantee against third-party IPRs. Throughout the chapter, problematic issues either related to the language or arising from practice were identified and solutions were put forward. What would constitute the best understanding and interpretation of this article has been the main focus throughout. Its engagement has served to disperse a number of clouds that originally surrounded the article. This analysis has helped to establish that the article should be applied in such a way that the seller is under a duty to make reasonable inquiries to identify third-party IPRs, with this duty being measured according to his professional capacity and the availability and accessibility of the relevant IPRs search services.

Another criticism on the application of Article 42 is raised by Beline, who argues that the application of domestic law causes 'greater predictability and certainty than Article 42 currently offers.'⁴¹⁶ Firstly, although a similarity can be observed in between common law countries, there is no extensive comparative analysis on the rules under different domestic laws, it is, therefore, hard to conclude that domestic laws are much better on IPRs issues. Secondly, with regard to predictability and certainty, it can be deduced from the analysis of the SGA, especially of s12, that IPR cases still pose questions and brings unresolved issues even in a very sophisticated domestic legal system. Furthermore, the limited number of cases decided by courts does not offer much aid for overcoming such problems. Moreover, Kröll points out that it is not suitable to follow the approaches employed by the national sales law for third-party IPRs problems that may occur in international sales as these instruments do not distinguish between defects in title and defects resulting from IPRs.⁴¹⁷

⁴¹⁶ Beline (n 6) 5.

⁴¹⁷ Kröll, 'Article 42' (n 40) 650. Also see Secretariat Commentary, 'Article [42]' (n 70) 36.

In addition to these points, the CISG has a number of advantages, and this helps to explain why its exclusion is not widely supported. It is suggested that the CISG reduces negotiation costs, brings a certain degree of predictability to litigation, and possesses a uniformity designed to serve international sales law.⁴¹⁸ These are important advantages. Likewise, Sono asserts that ‘it is much easier to understand one convention than to understand a great number of foreign laws, the miscomprehension of which has often been the sources of unnecessary disputes.’⁴¹⁹ Therefore, considering that Article 42 aims to establish ‘a delicate and equal balance between the parties’,⁴²⁰ and a relatively large number of cases on IPRs issues are heard under the CISG, it provides room for the development of the rule by considering the needs of IP law and the complexity of the contemporary goods.

⁴¹⁸ See Lisa Spagnolo, ‘The Last Outpost: Automatic CISG Outs, Misapplications and the Costs of Ignoring the Vienna Sales Convention for Australian Lawyers’ (2009) 10 *Melb. J. Int’l L.* 141; Lisa Spagnolo, *CISG Exclusion and Legal Efficiency* (Kluwer Law International 2014) 101-130.

⁴¹⁹ Kazuaki Sono, ‘The Vienna Sales Convention: History and Perspective’ in Sarvecic/Volken (eds) (n 6) 15.

⁴²⁰ Saidov (n 16) 233.

Chapter Four: The Buyer's Remedies for Third-Party Intellectual Property Rights and Claims

4.1. Introduction

This chapter considers the remedies available to the buyer under the CISG and the SGA when there are third-party IPRs and claims over the goods in question are raised. The remedies are essential to provide legal clarity and commercial confidence; their objectives are to maintain the performance of contractual obligations and to compensate the aggrieved party for his loss through non-performance of his contractual right.¹

The examination of contractual remedies is conducted through a comparative analysis of the remedial systems of the CISG and the SGA with the aim of determining which of the two provides sufficient protection for the buyer when the goods subjected to third-party IPRs.² The remedies are treated differently under common and civil law systems. As a common law system, under English contract law, it has been said that 'the protection of the performance interest is not wholehearted.'³ Hence, the prevailing remedy is damages, and specific performance is granted only for exceptional situations.⁴ However, it is important to bear in mind that, as is explained in 4.6.3 below, damages awards are designed to protect the claimant's performance interest, and that termination of a contract by the aggrieved is only allowed in limited circumstances. Although the CISG seeks a compromise between civil law and common law approaches in order to reach the goal of uniformity, its preference for the right to require performance as the first remedy for buyers suggests that the CISG prioritises the preservation of the contract and treats avoidance of the contract as the last resort.⁵ By this formula, it is believed that the CISG provides a similar approach to that of the civil law remedial system.⁶ Nevertheless, the requirement of certain conditions for the applicability of specific

¹ Barak Medina, 'Renegotiation, 'Efficient Breach' and Adjustment: The Choice of Remedy for Breach of Contract as a choice of a Contract-Modification Theory' in Nili Cohen and Ewan McKendrick (eds) *Comparative Remedies for Breach of Contract* (Hart Publishing 2005) 54.

² See '1.6.1. Determining Sufficiency'.

³ Ewan McKendrick, 'Breach of Contract and the Meaning of Loss' (1999) 52 CLP 37, 49.

⁴ See Andrew Burrows, 'Legislative Reform of Remedies for Breach of Contract: The English Perspective' (1997) 1 *Edinburgh Law Review* 155; G.H. Treitel, *Remedies for Breach of Contract: A Comparative Account* (Clarendon Press 1988).

⁵ See Harry M. Flechtner, 'Buyers' Remedies in General and Buyers' Performance-Oriented Remedies' (2005) 25 *JL & Com.* 339; Peter Huber, 'CISG—The Structure of Remedies' [2007] *Rechts Zeitschrift für ausländisches und internationales Privatrecht* 13. See *Bundesgerichtshof* (Germany) 3 April 1996 (PACE) (*Cobalt sulphate case*). The court states that 'avoidance of contract is only supposed to be the [buyer]'s last resort to react to a breach of contract.'

⁶ Alejandro M. Garro, 'Reconciliation of Legal Traditions in the UN Convention on Contracts for the International Sale of Goods' [1989] *The International Lawyer* 443.

performance diminishes the efforts of combining different remedial provisions; consequently, a uniform and straight compromise is not reached.⁷ Nevertheless, it is argued that in practice these differences between the remedial systems of the CISG and the SGA do not create significant distinction.⁸ This argument is explained at the end of the comparative analysis in this chapter.

When examining the available remedies for breach of the seller's obligations under the CISG Article 42 and the SGA s12, it is of significance to bear in mind that the remedies made available by IP law have an impact on the buyer's loss. IP law provides the right holder various remedies that include an injunction, deliver up, destruction, seizure, damages in respect of infringement and so on.⁹ The analysis of the contractual remedies is undertaken with attention to the possibility of recovering the buyer's losses based on IP law remedies by means of contract law, and the suitability of contractual remedies is assessed in the light of applicable IP law remedies.

The first section of this chapter provides a general overview of the buyer's remedies under the CISG and the SGA for establishing a general understanding of the remedial systems under these instruments. Following a general overview, the buyer's right to require performance, the right to fix additional time, the right to avoid the contract and damages are analysed in turn. The different types of remedies are analysed with a brief exposition of the rules laid down under the CISG and the SGA. A comparative analysis follows the examination of each remedy. Finally, a general comparison is provided in the conclusion.

4.2. An Overview of the Buyer's Remedies

4.2.1. The Buyer's Remedies under the CISG

The buyer's remedies for the seller's breach of contract are briefly set out in Article 45. It is viewed as 'informational', having the purpose of providing an overview of the buyer's remedies.¹⁰ Article 45(1) applies 'if the seller fails to perform any of his obligations under the

⁷ Johan Erauw and Harry M. Flechtner, 'Remedies under the CISG and Limits to Their Uniform Character' in Peter Sarcevic and Paul Volken (eds) *The International Sale of Goods Revisited* (Kluwer Law International 2001) 35, 43.

⁸ Ingeborg Schwenzer, 'Specific Performance and Damages According to the 1994 UNIDROIT Principles of International Commercial Contracts' (1999) 1 Eur. JL Reform 289, 291.

⁹ See TRIPS Agreement Articles 42-48. See Lionel Bently and Brad Sherman, *Intellectual Property Law* (4th Ed, OUP 2014); Sir Duncan Mackenzie Kerly, *Kerly's law of Trade Marks and Trade names* (16th Ed, Sweet & Maxwell 2017); Walter Arthur Copinger, E. P. Skone James, *Copinger and Skone James on Copyright* (16th Ed, Sweet Maxwell 2012); *Terrel on the Law of Patents* (18th Ed, Sweet and Maxwell 2017).

¹⁰ Flechtner (n 5) 339; Ulrich Magnus, 'Beyond the Digest: Part III (Articles 25-34, 45-52)' in Franco Ferrari, Harry Flechtner and Ronald Brand (eds) *The Draft UNCITRAL Digest and Beyond: Cases, Analysis and Unresolved Issues in the UN Sales Convention* (Sellier 2004) 330.

contract or this Convention'. It has been suggested that what constitutes this 'failure to perform' should be interpreted in the broadest sense and be determined 'by reference to the subject matter of the obligation in question.'¹¹ From this perspective, the seller's failure to perform his obligation under Article 42 occurs when a third-party claims his IPRs over the goods, and the seller's liability may arise even when the claims have not actually been brought against the buyer.¹²

According to Article 45(1)(a), the buyer can exercise the remedies stated in Articles 46 to 52, and by Article 45(1)(b) claim damages as provided under Article 74 to 77 of the CISG. The main remedies referred to by Article 45 are the right to require performance (Article 46), which is subject to Article 28, to declare the contract avoided (Article 49), and price reduction (Article 50); the other remedies are seen as supplementary.¹³ The buyer should elect one of these remedies on the basis of their differing legal consequences.¹⁴ In order to apply the remedies, the CISG does not require the defaulting party's fault, and this approach is even applied to the damages contrary to the civil law systems.¹⁵

The CISG encourages the parties to keep the contract alive by way of various remedies that enable the seller to perform the contract and setting the fundamental breach threshold to claim avoidance of the contract.¹⁶ The underlying reasons for the embrace of preserving the contract are the principle *pacta sunt servanda* (the promises are legally binding and must be performed),¹⁷ economic reasons (the cost and risk of restitution),¹⁸ and the parties' legitimate interests.¹⁹ The UNCITRAL Case Digest points out that 'The fact that the right to performance is provided for first among the remedies described in articles 46-52 reflects that, under the Convention, the contractual bond should be preserved as far as possible.'²⁰

¹¹ Müller-Chen, 'Article 45' in Ingeborg Schwenzer (eds) *Schlechtriem & Schwenzer Commentary on the UN Convention on the International Sale of Goods (CISG)* (4th Ed, OUP 2016) 694.

¹² See '3.2.2./1. Third-Party Rights and Claims Based on IIP Rights'.

¹³ Müller-Chen, 'Article 45' (n 11) 694. The other remedies are to fix additional time (Article 47), the seller's right to cure defects (Article 48), rules for the partial non-performance (Article 51) and the rules for early delivery (Article 52).

¹⁴ *Ibid* 694.

¹⁵ *Ibid*; John O. Honnold, *Uniform Law for International Sales under the 1980 United Nations Convention* (4th Ed, Wolters Kluwer Law and Business 2009) 404.

¹⁶ See Peter Huber, 'Article 45' in Stefan Kröll, Loukas Mistelis and Maria del Pilar Perales Viscasillas (eds) *UN Convention on Contracts for the International Sale of Goods (CISG)* (Hart 2011) 683.

¹⁷ Bertram Keller, 'Favor Contractus Reading the CISG in Favor of the Contract' in Camilla B. Andersen & Ulrich G. Schroeter (eds) *Sharing International Commercial Law across National Boundaries: Festschrift for Albert H. Kritzer on the Occasion of his Eightieth Birthday* (Wildy, Simmonds & Hill Publishing 2008) 247.

¹⁸ Huber, 'The Structure of Remedies' (n 5) 20.

¹⁹ Peter Huber and Alastair Mullis, *The CISG: A New Textbook for Students and Practitioners* (Sellier European Publishers 2007) 182-183.

²⁰ UNCITRAL, *Digest of Case Law on the United Nations Convention on the International Sale of Goods* (2012 Edition) 227.

Under Article 45(2), the buyer is allowed to combine other remedies with damages without permitting him to be overcompensated.²¹ The subparagraph contains a rule that should be applied when any remedies are claimed under the CISG, namely that the buyer's right to claim damages will not be prevented by the exercise of his right to other remedies.²² Article 45(3) provides that the granting of a period of grace by courts or arbitral tribunal will not be available.

Overall, the remedial system under the CISG is presented briefly here; nevertheless, the remedies that are available when Article 42 is breached deserve closer attention due to their complex wording. This wording means that these remedies only apply to cases arisen from the non-conformity of goods. Hence, the available remedies for the breach of Article 42 is examined in further detail.

4.2.1.1. The Buyer's Remedies Available for the Breach of Article 42

Unlike the CISG Article 42, the ULIS Article 52 included the remedies available to the buyer. Article 52(1) states that

requests that the goods should be freed therefrom within a reasonable time or that other goods free from all rights and claims of third persons be delivered to him by the seller.

Given that, specific performance was available in the event of third-party rights and claims. In addition to this, the ULIS 52(2) and (3) indicated that the buyer might have claimed damages for his loss and avoided the contract based on a fundamental breach.

During the CISG's drafting process, the buyer's available remedies were discussed, and two prevailing views emerged from the delegates on the remedies that could be applied when the breach occurred. Some representatives argued that the remedies available to the breach of non-conformity should not be employed to IPRs issues with the belief that the breach of these two different aspects should not be treated in the same manner.²³ On the contrary, it was claimed that the remedies available for non-conformity should also be applied when the seller was in breach of Article 52.²⁴ The essential point of this discussion was the determine if the

²¹ Müller-Chen, 'Article 45' (n 11) 730; Huber, 'Article 45' (n 16) 685.

²² The buyer's claim for damages with the available remedies is possible to extend the remedy with which damages are combined. Unless the selected remedy compensates the buyer's loss, the buyer's right to claim for damages is not prevented on the account of exercising any remedy other than damages. See Müller-Chen, 'Article 45' (n 11) 730.

²³ John O. Honnold, *Documentary History of the Uniform Law for International Sale* (Kluwer Law and Taxation Publishers 1989) 107-107 C.41 note 133-134; See *UNCITRAL Yearbook Volume III: 1972* (1973); A/CN.9/62/Add.2) 90, notes 132-134; Summary Records of Meetings of the First Committee, 17th meeting (UN Doc A/CONF.97/C.1/L.124) in UN, *United Nations Conference on Contracts for the International Sale of Goods*; *Official Records* (UN Doc A/CONF.97/19) note 69.

²⁴ Honnold, *Documentary History* (n 23) 107 and 547 in the heading C.41 notes 133-134; Summary Records of Meetings of the First Committee, 17th meeting (n 23) 326 note 65. Norway proposed that when the goods do not conform with the contract in addition to the third-party IPRs over them, the buyer could be allowed to apply for the remedies for non-conformity of the goods. See *UNCITRAL Yearbook Volume III* (n 23) 90 note 133.

fundamental breach will be available when Article 39 (which is, then, became Article 42 of the CISG) is breached. While Canadian representative supported that the seller should not have been liable for fundamental breach due to IPRs issues,²⁵ others disagreed with these proposals and argued that the breach needs to be examined according to circumstances.²⁶ As a result of this rejection, some representatives expressed the view that the article should be interpreted as addressing the non-conformity of the goods.²⁷ Therefore, that it should be treated as a fundamental breach.²⁸ In the Recommendations of the Pending Questions, the available remedies indicated under Article 52 were left to the articles which were specifically designated for the remedies for the breach of the contract.²⁹

The seller's breach of Article 42 entitles the buyer to a remedy unless an exemption for the seller applies.³⁰ It is acknowledged that all remedies which are applicable to the breach of Article 41 (defects in title) can be claimed for cases that arise on the ground of third-party IPR infringement.³¹ Although Article 45 sets out a general guidance on the remedies available to the buyer, there is some debate over the applicability of some remedies when Article 42 is breached. The wording of some remedial articles refers to 'conformity of the goods with the contract', which leads to the application of these remedies being excluded in certain circumstances.³²

Articles 46(2) (substitute delivery), Article 46(3) (repair) and 50 (price reduction) concern goods that 'do not conform with the contract', and the conformity is defined under Article 35 of the CISG.³³ Due to this wording, it is accepted that these articles only cover cases arising under Article 35 and that cases falling under Article 41 and 42 are excluded.³⁴ This exclusion

UNCITRAL Yearbook Volume VIII: 1977 (1978; A/CN.9/SER.A/1977; E.78.V.7) note 25, 147 note 5(b), 152 notes 6-7.

²⁵ Summary Records of Meetings of the First Committee 17th meeting (n 23) 326 note 65

²⁶ Ibid 326-327.

²⁷ Ibid. 326 note 65 and 327 note 69.

²⁸ Honnold, *Documentary History* (n 23) 107 C.41 note 132.

²⁹ Ibid 226 note 117.

³⁰ According to Art 42(2), if the buyer has actual or constructive knowledge of third-party IPRs or claims at the time of the conclusion, or the IPRs infringement has occurred due to the buyer's specific instruction on the goods, the obligation under Art 42 is excluded. Also, the buyer's failure of duty to notify the seller within a reasonable time in accordance with Art 43(1) results to exclusion of the liability with the reservation of exception clauses may be employed for this duty.

³¹ See Ingeborg Schwenzer, 'Article 42' in Schwenzer eds (n 11) 672; Stefan Kröll, 'Article 42' in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 660.

³² Ibid, Ruth M Janal, 'The Seller's Responsibility for Third Party Intellectual Property Rights under the Vienna Sales Convention' in Andersen/Schroeter (eds) (n 17) 203-231.

³³ According to Art 35, the goods must be in the conformity with the contract in their quality, quantity and description or packaging. The goods must be fit for the purposes which are either ordinary usage of the goods of the same description or expressly or impliedly made known to the seller, and the goods must carry the qualities of the sample or model presented by the seller to the buyer.

³⁴ Müller-Chen, 'Article 46' in Schwenzer (n 11) 743; Huber, 'Article 46' in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 688-689; Axel Metzger, 'Seller's Liability for Defects in Title According to Articles 41

is defended by the Secretariat Commentary on Article 35 and Article 43,³⁵ according to which the liability rules under the aforementioned articles are different from each other under the CISG, therefore the remedies applicable to the cases which arise from the seller's failure to deliver goods conforming to the contract are not available to the buyer who suffers from a breach of Article 42. Articles 46(2), 50 and 51 are also counted within the specific list of those articles.³⁶

Other scholars contend that the remedies applied to cases falling under Article 35 may always be claimed when goods are affected by third-party rights.³⁷ This argument derives from the view of some authors that the liability under Article 42 is akin to liability for general defects in title under Article 41 or the non-conformity provisions under Article 35.³⁸ On this view, the remedies under Article 46(2) and (3), and Article 50 may be available for the buyer in cases of third-party IPRs over the goods in question.

However, this view has not been discussed extensively, and consequently, it failed to gain wider recognition in the literature. Also, the use of different headings for conformity of goods and Articles 41 and 42 is cited as evidence by the authors who argue that Articles 46(2) and (3) and Article 50 does not apply to cases arising under Article 42.³⁹ As a consequence of this differentiation created by the headings of the CISG, even authors who believe that there is a similarity between the rules for third-party IPRs and claims and conformity of goods have not insisted on the applicability of remedies under Article 46(2) and (3) and Article 50.⁴⁰

For these reasons, Article 46(2) for substitute delivery and Article 46(3) for repair and Article 50 for price reduction are not examined further as part of the remedies available to the buyer for the breach of Article 42 in this chapter. Furthermore, although it is one of the buyer's

and 42 of the CISG' in Igneborg Schwenger, Yesim Atamer, Petra Butler (eds) *Current Issues in the CISG and Arbitration* (Eleven International Publishing 2014) 195.

³⁵ See Secretariat Commentary, 'Article [35] in *Official Records* (n 23) note 2; Secretariat Commentary, 'Article [43]' in *Official Records* (n 23) note 8.

³⁶ See Secretariat Commentary, 'Article [43]' (n 35) note 8.

³⁷ Schwenger 'Article 42' (n 31) 672; Kröll, 'Article 42' (n 31) 660; Fritz Enderlein, 'Rights and Obligations of the Seller under the UN Convention on Contracts for the International Sale of Goods' in Petar Sarcevic & Paul Volken (eds) *International Sale of Goods: Dubrovnik Lectures* (Ocena Publications 1986) 133; Peter Schlechtriem and Petra Butler, *UN Law on International Sales: The UN Convention on the International Sale of Goods* (Springer 2008) 141.

³⁸ Schwenger, 'Article 42' (n 31) 672; Kröll, 'Article 42' (n 31) 660; Peter Schlechtriem, 'The Seller's Obligations Under the United Nations Convention on Contracts for the International Sale of Goods' in NM Galston and H Smit (eds) *International Sales: The United Nations Convention on Contracts for the International Sale of Goods* (Matthew Bender 1984).

³⁹ See Fritz Enderlein and Dietrich Maskow, *International Sales Law: United Nations Convention on Contracts for the International Sale of Goods* (Oceana Publication 1992) 177; Huber, 'Article 46' (n 34) 688.

⁴⁰ Schwenger, 'Article 42' (n 31) 705. Schwenger also believes that legislative history, wording and scheme is important in terms of uniformity and legal certainty, therefore, the remedies under Article 46(2) and (3) should not be applied to Article 42. See Schlechtriem/Butler (n 37) 141.

remedies under Section III of the CISG, the seller's right to remedy the failure of performance in Article 48 is not covered by this chapter because this remedy is dependent upon the seller's intention and will.

4.2.2. The Buyer's Remedies under the SGA

In the event of a breach of contract, common law treats the damages as a primary remedy, and specific performance is available under certain conditions.⁴¹ The award of damages aims to provide relief to the aggrieved party from the breach by putting him in the position in which he would have been if there was no breach.⁴² Under English law, the remedies available to the buyer when a seller commits a breach of contract are to claim damages for his losses, including loss of profit, reject the goods and terminate the contracts under certain conditions, and to claim specific performance if damages is inadequate for compensating his loss.⁴³

Whether the aggrieved party is allowed to terminate the contract for breach depends on the classification of the term breached. Contract terms are classified as conditions, warranties, and innominate terms by the law.⁴⁴ No definition has been provided for 'condition' under the SGA. A condition is regarded as the backbone of the contract, which means the existence of the contract is dependent upon the fulfilment of the event or promise made by the parties.⁴⁵ According to Diplock LJ, a condition is a 'contractual undertaking [...] that [...] breach can give rise to an event which will deprive the party not in default of substantially the whole benefit which it was intended that he should obtain from the contract'.⁴⁶ Also, Roskill LJ states that showing the breach 'destroyed the consideration which the buyers gave' can indicate that the term breached was a condition.⁴⁷ The breach of a condition entitles the aggrieved party to terminate the contract regardless of the seriousness of its consequences.⁴⁸

A warranty is defined by the SGA s(61)(1) as 'an agreement with reference to goods which are the subject of a contract of sale, but collateral to the main purpose of such contract, the breach of which gives rise to a claim for damages, but not to a right to reject the goods and treat the contract as repudiated'. Since a warranty is a subsidiary term of the contract, it does not carry

⁴¹ See Burrows (n 4) 157; Treitel (n 4) 6.

⁴² Allan Farnsworth, 'Legal Remedies for Breach of Contract' (1970) 70 Colum. L. Rev. 1145.

⁴³ The SGA s52 for the specific performance, The SGA s51 and s53 for damages.

⁴⁴ Robert Bradgate, *Commercial Law* (3rd Ed, Butterworths 2000) 261.

⁴⁵ Michael Bridge, *The Sale of Goods* (3rd Ed, OUP 2013) 510-525, Michael Bridge and others (eds), *Benjamin's Sale of Goods* (9th edition (Inc. Supp), Sweet & Maxwell 2014) para10-026. See *Cehave NV. v Bremer Handelsgesellschaft mbH (The Hansa Nord)* [1976] Q.B. 44, 58; *L. Schuler A.G. Appellants v Wickman Machine Tool Sales Ltd. Respondents* [1974] AC 235.

⁴⁶ *Hong Kong Fir Shipping Co Ltd v Kawasaki Kisen Kaisha* [1962] 2 QB 26, 70.

⁴⁷ *The Hansa Nord* (n 45) 73.

⁴⁸ See SGA s11(3). See Guenter H Treitel, *Some Landmarks of Twentieth Century Contract Law* (OUP 2002) 109.

such importance as conditions.⁴⁹ The breach of a warranty does not carry the same serious consequences as the breach of a condition. Due to the nature of the breach, only a claim for damages is possible, not a repudiation of the contract or rejection of the goods.⁵⁰ Innominate terms are also not defined by the SGA. As is explained in section 4.5.3 below, breach of such a term only gives rise to a right to terminate the contract if the consequences of the breach are sufficiently serious.

The buyer's available remedies due to third-party IPRs over goods vary pursuant to the classification of the breach as one of either s12(1) or s12(2) of the SGA. As the former is classified as implying conditions and the latter as implying warranties, the remedies for breach of these terms are also divergent.⁵¹ In order to identify the applicable remedies in case of the seller's breach under s12, it is therefore essential to identify which of the terms has been breached.

In the following sections, the buyer's remedies when breaches of s12(1) and s12(2) occur due to third-party IPRs are examined, along with the issue of the applicability and suitability of these remedies as a means of providing relief to the buyer who suffers from third-party IPRs because of the seller's breach.

4.3. The Buyer's Right to Require Performance

4.3.1. Introduction

The aim of making specific performance available for the buyer is to put the aggrieved party in as good a position as he would have been if the contract had not been breached.⁵² The CISG entitles the buyer to require performance under Article 46, and the SGA under s52 permits the seller to obtain specific performance. While these two legal instruments employ different terminology, their purpose is similar, which is the performance of the contract pursuant to the

⁴⁹ See *Benjamin's Sale of Goods* (n 45) paras.10-015-10-017; S. J. Stoljar, 'Conditions, Warranties and Descriptions of Quality in Sale of Goods—I.' (1952) 15 MLR 425; Allan C. Hutchinson and John N. Wakefield, 'Contracts--Innominate Terms: Contractual Encounters of the Third Kind' (1982) 60 Canadian Bar Review 335.

⁵⁰ The SGA s11(3).

⁵¹ See Law Commission and The Scottish Law Commission, *Sale and Supply of Goods Report* (Law Com No 160, Scot Law Com No 104, 1987) para 2.22-2.26.

⁵² Jianming Shen, 'The Remedy of Requiring performance under the CISG and the Relevance of Domestic Rules.' (1996) 13 *Ariz. J. Int'l & Comp. L.* 253.

contract.⁵³ The general structure of the CISG's remedial provisions is, however, more similar to the civil law system.⁵⁴

The following analysis of the buyer's right to require performance begins with an exposition of Article 46(1), including the limitations imposed on the applicability of this remedy. An examination of specific performance as granted by the SGA under Section 52 follows, with a comparative analysis of the rules of these legal instruments. However, as explained previously, the applicability of substitute delivery and repair for the breach of Article 42 is not available,⁵⁵ and there are no similar provisions within the SGA, the rules for substitute delivery and repair under Article 46(2) and (3), which are regarded as variants of specific performance, are not investigated separately.⁵⁶

4.3.2. Under the CISG

Article 46(1) regulates the buyer's general right to require performance by its first paragraph. It reads: 'The buyer may require performance by the seller of his obligations unless the buyer has resorted to a remedy which is inconsistent with this requirement.' The legislative history of Article 46 reveals despite opposition from delegates of common law systems to enforcing specific performance without certain limitations,⁵⁷ the Belgian delegate highlighted that the significant issue is 'to honour obligations under the contract thus, the seller could not be able to escape from his contractual obligations'.⁵⁸ Including to the importance of being bound by the contractual promises,⁵⁹ the international character of the contract, requiring time and effort to remedy the aggrieved party can be counted as the reason to grant the specific performance.⁶⁰

It is generally accepted that the right to require performance can be claimed when a seller fails to perform any of his obligations under the CISG. The buyer does not require to apply the court

⁵³ G.H. Treitel, *Remedies for Breach* (n 4) 43. It is worth noting that Article 9:102 of the Principles of European Contract Law (PECL) uses the term specific performance 'due to lack of a better, generally understood term.' See Ole Lando and Hugh Beale (eds), *Principles of European Contract Law; Parts I and II* (Kluwer Law International 2000) 394.

⁵⁴ Huber, 'Article 46' (n 34) 687; Jacob S. Ziegel, 'The Remedial Provisions in the Vienna Sales Convention: Some Common Law Perspectives' in Galston/Smit (eds) (n 38); Sara G. Zwart, 'The New International Law of Sales: A Marriage Between Socialist, Third World, Common, and Civil Law Principles' (1988) 13 *NCJ Int'l L. & Com. Reg.* 109.

⁵⁵ See '4.2.1.1. The Buyer's Remedies Available for the Breach of Article 42'.

⁵⁶ Michael Will, 'Article 46' in CM Bianca and MJ Bonell (eds) *Commentary on the International Sales Law: The 1980 Vienna Sales Convention* (Giuffrè 1987) 333. Will considers that these remedies as a variant.

⁵⁷ The delegates supported to limit the requiring the performance to the cases the buyer would not be able to purchase substitute goods without unreasonable delay and expense. Summary Records of Meetings of the First Committee 18th Meeting in Official Records (n 23) 330-332. See Shen (n 52) 263-267.

⁵⁸ *Ibid* 332.

⁵⁹ See Enderlein/Maskow (n 39) 177; Will, 'Article 46' (n 56) 335; Keller (n 17) 257.

⁶⁰ See Secretariat Commentary, 'Article [46]' in *Official Records* (n 23) 38 note 2; Amy H. Kastely, 'The Right to Require Performance in International Sales: Towards an International Interpretation of the Vienna Convention' (1998) 63 *Wash. L. Rev.* 63 607, 614-615.

in order to use his right under Article 46.⁶¹ Although the CISG attributes importance to the right to require performance, its availability to the buyer is subjected to some limitations. Given the language of the article, an inconsistent remedy cannot be claimed by the buyer along with specific performance. Also according to Article 28, the buyer's right to require performance cannot be available unless the court would give the same judgment for similar contracts under its own law.⁶² These limitations and their effects on the availability of performance are examined in turn below.⁶³ Then, the application of Article 46 when the seller delivers the goods subject to third-party IPRs is analysed to reveal how the seller can fulfil his remedial obligation under Article 46(1).

4.3.2.1. Limitations to Article 46(1)

1. Inconsistent remedy

Article 46(1) requires that any remedies inconsistent with this requirement should not be resorted to by the buyer. A buyer's request for application of remedies such as avoidance, price reduction and damages on the ground of failure to perform prevents a claim to require performance.⁶⁴ Honnold clarifies the significance of this restriction on the remedy, arguing that it 'serves a policy that is deeper than the logic (or esthetics) of inconsistency' on the ground that the seller can rely on the buyer's declaration of any other remedy (e.g. avoidance), thereby the seller can stop to take actions to perform his obligation.⁶⁵

2. Article 28

According to Article 28, the buyer's right to require performance can only be enforced when the appropriate court would grant such specific performance for similar contracts under its own law.⁶⁶ Common law systems allow specific performance only in exceptional cases; thus Article 28 aims to overcome discrepancies between civil and common law systems.⁶⁷ During the drafting history, it is seen that the US and the UK were the advocates of the amendment that prevents the extension of specific remedies to common law jurisdictions which refer specific

⁶¹ See Secretariat Commentary, 'Article [46]' (n 60) 38 note 8.

⁶² See Article 28 of the CISG, Müller-Chen, 'Article 28' in Schwenzler eds (n 11) 459; Honnold, *Uniform Law* (n 15) 281; Chengwei Liu, Specific Performance: Perspectives from the CISG, UNIDROIT Principles, PECL and Case Law (2nd edition, 2005) <<http://www.cisg.law.pace.edu/cisg/biblio/chengwei3.html>> accessed 22 November 2017.

⁶³ See '4.3.2.1. Limitations to Article 46(1)'.

⁶⁴ See Huber, 'Article 46' (n 34) 690-691; Müller-Chen, 'Article 46' (n 34) 738.

⁶⁵ Honnold, *Uniform Law* (n 15) 411.

⁶⁶ Ibid 218. See The CISG Article 28; Müller-Chen, 'Article 28' (n 62) 482; Liu (n 62).

⁶⁷ See Müller-Chen, 'Article 28' (n 62) 482-483; Allison E. Butler, *A Practical Guide to CISG Litigation: Negotiations Through Litigation* (Aspen Publishers 2006) §6.03 <<http://www.cisg.law.pace.edu/cisg/biblio/butler6.html>> accessed 17 May 2017; Steven Walt, 'For Specific Performance Under the United Nations Sales Convention' (1991) 26 Tex. Int'l L. J. 213, 219.

performance as an exceptional remedy.⁶⁸ Even the phrase ‘it could do so under its law’ was amended by ‘it would do so under its law’ because the UK explained that “if it [the States] "could" do so-it would be obliged to give such a judgement if that was, under the Convention, an appropriate remedy in the circumstances.”⁶⁹ With the support of also civil law countries, this inclusion is accepted within the CISG.⁷⁰

By this inclusion under Article 28, the questions arise whether domestic law restricts the application of specific performance or whether Article 28 impairs the uniform application of the CISG by leaving this issue is left to the discretion of the court of the forum.⁷¹ The courts will decide whether it would grant specific performance considering the circumstances under its domestic law, therefore, unless domestic courts justify the buyer’s claim for specific performance, it will not be granted. In reverse, if the facts of the case do not justify the buyer’s demand for specific performance, the court does not grant such that remedy.⁷² Regarding these situations, it is believed that the specific performance is a discretionary remedy under the CISG.⁷³ The UNCITRAL Digest made clear that the article ensures that “the court “is not bound” to adopt the solution of its national law regarding specific performance in the context of an international sale of goods governed by the Convention.”⁷⁴ Therefore, the article’s wording of ‘court is not bound to enter a judgement for specific performance’ should be interpreted as the courts are not bound to reject the specific performance as well as granting it.⁷⁵ Hence, if it is not apparent to the applicability of specific performance under domestic law based on the facts, the court should be not bound to reject granting it.⁷⁶ Although case law has not been expanded on specific performance and in relation to Article 28,⁷⁷ it is argued that the differences between the common and civil law systems do not affect the availability of specific performance.⁷⁸

⁶⁸ Summary Record of First Committee 13th Meeting in *Official Records* (n 23) 304-305.

⁶⁹ *Ibid* note 43.

⁷⁰ *Ibid* note 46.

⁷¹ John Fitzgerald, ‘CISG, Specific Performance, and the Civil Law of Louisiana and Quebec’ (1996) 16 *J.L.& Com.* 291, 292; Kastely (n 60) 627; Will, ‘Article 46’ (n 56) 341.

⁷² See Federal District Court Illinois (United States) 7 December 1999 (PACE).

⁷³ See Kastely (n 60) 637; Fitzgerald (n 71) 299.

⁷⁴ UNCITRAL, *Digest of Case Law on the United Nations Convention on the International Sale of Goods* (2016 Edition) 122.

⁷⁵ Honnold, *Uniform Law* (n 15) 224.

⁷⁶ Peter A. Piliounis, ‘Remedies of Specific Performance, Price Reduction and Additional Time (Nachfrist) under the CISG: Are These Worthwhile Changes or Additions to English Sales Law’ (2000) 12 *Pace Int'l L. Rev.* 1, 18.

⁷⁷ UNCITRAL Digest 2016 (n 74) 122 note 3 and 221 note 4.

⁷⁸ JM Catalano, ‘More Fiction than Fact: The Perceived Differences in the Application of Specific Performance under the United Nations Convention on Contracts for the International Sale of Goods’ (1997) 71 *Tul. L. Rev.* 1807. See Flechtner (n 5) 344; Walt (n 67) 218. Fitzgerald (n 71) 312.

4.3.2.2. Article 46 for Third-Party IPRs Cases

The right to require performance can be claimed when a seller fails to perform any of his obligations under the CISG. Nonetheless, some authors question the availability of Article 46(1) in cases arising from a defect in title (Article 41). Consequently, any unavailability of the remedies to Article 41, which sets the general rule for third-party rights and claims, affects Article 42. These authors raised the issue on the ground of the lack of any discussion of the availability of specific performance to third-party claims in the legislative history.⁷⁹ According to Will, the debates around physical defects suggest that specific performance might be limited to such cases.⁸⁰ Nevertheless, Will highlights that when the wording and purpose of the article are considered, all the seller's obligations are covered by Article 46(1), and thus the buyer can require performance in respect of third-party rights and claims.⁸¹ This doubt over the availability of specific performance might be due to uncertainty over how the seller can fulfil the buyer's claim for performance when there are third-party rights and claims over the goods. Although within the literature it is accepted that the buyer has the right to require performance when third-party rights and claims are raised,⁸² when it is accepted that the seller has fulfilled his remedial obligation under Article 46(1) in such cases needs to be revealed.

The CISG case law does not reveal much information on the remedies applicable to the breach of Article 42. Hence, how a seller performs his duty to deliver the goods free from third-party IPRs in accordance with Article 46 cannot be easily deduced from the case law. In the *CD Media* case, the court stated that:

Lacking any corresponding submissions from the proceedings in the first instance, it cannot be assumed that [Seller] cured the deficiency in title by having filed a declaration of guarantee which would constitute a remedy of lack of conformity under Art. 46(3) CISG. On the contrary, the procedural submission made by [Buyer] that it unsuccessfully requested [Seller] to remedy the deficiency either by subsequent licensing of the blank CD media or by an indemnification or by issuing a bank security needs to be considered.⁸³

The court counted subsequent licensing, indemnification or a bank security as ways of remedying the defect. In terms of performance of the obligation in accordance with Article 46(1), it can be argued that the seller can fulfil his obligation to perform, by making deals with

⁷⁹ See Walt (n 67); Will, 'Article 46' (n 56) 339; Jussi Koskinen, 'CISG, Specific Performance and Finnish Law', Publication of the Faculty of Law of the University of Turku, Private law publication series B:47 (1999) <<http://www.cisg.law.pace.edu/cisg/biblio/koskinen1.html>> accessed 7 February 2017.

⁸⁰ Will, 'Article 46' (n 56) 339.

⁸¹ *Ibid.* On the same account Walt (n 67) 216. Walt also agrees that specific performance can be claimed when Article 41 is breached.

⁸² See Schwenger, 'Article 42' (n 31) 672; Kröll, 'Article 42' (n 31).

⁸³ *CD media case Oberster Gerichtshof (Austria)* 12 September 2006 (PACE).

the IPRs holder either to obtain permission or to acquire the right to distribute the goods, or by delivering other goods that do not infringe third-party IPRs.⁸⁴ Also, the seller can deliver other goods which conform to the contract and free from third-party IPRs.⁸⁵

Consideration of whether these options can be used to remove third-party IPRs over the goods requires attention to their availability under IP law. The question arises whether IP law allows the infringer to acquire the licence after the infringement occurred. When the patent holder uses his right to build a strong market position and attempts to monopolise competition by blocking new entrants into the market, a compulsory licence can be imposed under the essential facilities doctrine.⁸⁶ This doctrine focuses on ensuring a fair balance between access to products or information and providing a form of compensation, such as a compulsory licence, to the IPRs holder. Under US anti-trust law and EU competition law, the objective is to prevent monopolistic activities which stifle competition.⁸⁷ Arguably in the compulsory licence is important within the pharmaceuticals industry by virtue of public health, for example, the importation of certain products is allowed on the ground of compulsory licence utilisation to promote competition.⁸⁸ When the sale of pharmaceuticals is prevented by the application of the patent owner's exclusive rights, compulsory licences can be granted where the requirements are met.

Under UK Patent Act 1977 s48(1), an application can be made to the comptroller for a compulsory licence under the patent after the expiration of three years from the date of the grant of a patent. The comptroller has the discretion to grant a licence if he thinks fit to do so and the relevant grounds should be observed depending on whether the proprietor is a WTO proprietor or else. According to s49, if the comptroller is satisfied with the conditions imposed by the patent holder, he may also impose the grant of licenses to the applicant's customers. From the perspective of sales law, if the seller can manage to obtain compulsory licenses, this will cover the buyer, so that he can use/resell the goods without facing any prevention by the right holder. Though in reality, the mere threat of a compulsory licence application may induce the IPR holder to voluntarily providing a licence.⁸⁹

⁸⁴ See Janal (n 32) 226-227.

⁸⁵ Huber, 'Article 46'(n 34) 693.

⁸⁶ Mari Minn, 'Voluntary Licencing of Patents in the Pharmaceutical Industry: Effective Means of Promoting the Competition Process While Remediating the Shortcomings of the Patent System' (2016) 38 EIPR 718.

⁸⁷ Barry Doherty, 'Just what are essential facilities?' (2001) 38 Common Market Law Review 397.

⁸⁸ See Gabriele Spina Ali, 'The Sound of Silence: International Treaties and Data Exclusivity as a Limit to Compulsory Licensing' (2016) 38 EIPR 746; Cynthia Ho, *Access to Medicine in Global Economy: International Agreements on Patents and Related Rights* (OUP 2011). TRIPS Article 31 also allows the member states to apply compulsory licences.

⁸⁹ Bently/Sherman (n 9) 650.

In the case of an unregistered design rights infringement action, if a licence as of right is available and the defendant agrees to undertake the licence, the defendant will no longer be subject to a delivery up order or injunction. In relation to awarding damages or account of profits, these will be limited so that they ‘shall not exceed double the amount which would have been payable by him as licensee’ according to UK Copyright, Designs and Patents Act 1988 (CPDA).⁹⁰

Settlements provide another way of dealing with IP infringements. In order to avoid the high costs of litigation and the uncertainty of its outcome and to reduce the time spent to obtain a decision, a settlement is often preferred by the parties.⁹¹ Further problems include the probability of setting permanent injunctions, and the enormous damages to be paid in case of the infringement, and the possibility that the damages to be obtained on the ground of the infringer’s profit made from the goods attached with IP in question may be lower than the right holder’s expected profit.⁹² For reasons such as these, the IPR holder and the seller of these goods may well reach an agreement, and as a result, the issuing of an injunction that causes the buyer to stop selling or using the goods in question can be prevented.

When Will examined Article 46, he pointed out the difficulty of convincing third-parties to conclude an agreement to remove their claims when the goods are not fungible.⁹³ If the seller and third-party had a previous IPR agreement over the goods, which could have expired and thus caused a breach of the sale agreement by the seller, a new IPRs agreement might easily be reached. Otherwise, it is highly likely that the third-party will reject the seller’s offer to acquire IPRs over the goods legally, especially if the goods in question infringe a well-known trademark or the patent of a well-known company.

These actions can result in removing third-party IPRs over the goods; however, some questions may still arise regarding the applicability and availability of this remedy to Article 42 cases. As discussed in the previous chapter, Article 42 provides for the seller’s liability regardless of whether the claim by the third-party is well-founded or ill-founded.⁹⁴ When a third-party approaches the buyer with an IPR claim the nature of which is not known yet, and consequently the buyer invokes Article 42, how can the seller perform according to Article 46? It is argued

⁹⁰ See CPDA s230 and s239 (1); See *Copinger and Skone James on Copyright* (n 9) 13-202.

⁹¹ William M. Landes, ‘An Empirical Analysis of Intellectual Property Litigation: Some Preliminary Results’ (2004) 41 *Hous. L. Rev.* 749; Jay P. Kesan and Gwendolyn G. Ball, ‘How Are Patent Cases Resolved - An Empirical Examination of the Adjudication and Settlement of Patent Disputes’ (2006) 84 *Wash. U. L. Rev.* 237.

⁹² See James Langenfeld and Wenqing Li, ‘Intellectual Property and Agreements to Settle Patent Disputes: The Case of Settlement Agreements with Payments from Branded to Generic Drug Manufacturers’ (2003) 70 *Antitrust L.J.* 777.

⁹³ Will, ‘Article 46’ (n 56) 340.

⁹⁴ See ‘3.2.1.2.Third-Party Claims’ and ‘3.2.2.2.-1.Third-Party Rights and Claims Based on IIP Rights’

that the burden of proving the legal nature of a third-party claim is upon the seller.⁹⁵ Thus, the seller must counter the third-party claim with litigation. However, merely starting the litigation process should not indicate that the seller performs specifically. When the court decides that third-party claims be ill-founded, the seller can be discharged from his liability to perform in terms of Article 46(1). In other words, a court decision completes the seller's specific performance. On the other hand, it can be claimed that if the court decides that the IPR claims be well-founded, the only possible way to accomplish the performance seems to acquire the IPR license, conclude any other IPRs agreement with the third-party or to deliver other goods which do not infringe third-party IPRs.

Nevertheless, the risk of lengthy litigation to establish the legal nature of an IPR claim presents another problem. As was argued in the previous chapter, a long-lasting litigation process restricts the use or resale of goods by the buyer for an indefinite period.⁹⁶ Is it possible for a buyer, who thinks that litigation is taking longer than he can bear, to change the remedy after a period of time passed from his claim for specific performance? Müller-Chen argues that unless the buyer has fixed an additional time for the performance, it is not possible for the buyer to exercise another remedy.⁹⁷ Even if it is possible to change the remedy elected previously, the main problem is to determine a definitive yardstick with which to evaluate whether or not a 'period' of the litigation can be regarded as long-lasting.⁹⁸ It is challenging to provide a definite yardstick to this problem. The decision might be left to the discretion of the court, which can consider the specific circumstances of every case.

As highlighted in one CISG case, 'The counterparty of the breaching party is entitled at first, to claim the full and due performance of the obligation breached (CISG Articles 46(1) and 62), provided that the said performance is physically and legally possible'.⁹⁹ In such cases, the reasonableness of requiring performance can be argued. It must also be determined if the buyer's persistence in requiring performance constitutes bad faith.¹⁰⁰ If the facts of the situation indicate that the seller will fail to perform specifically, so that therefore requiring performance is unreasonable, based on the principle of good faith, the buyer's demand for performance should not be granted.¹⁰¹

⁹⁵ Secretariat Commentary, 'Article [41]' in *Official Records* (n 23) 36 note 3; Kröll, 'Article 42' (n 31) 650.

⁹⁶ See '3.2.2. Third-Party Intellectual Property Rights'; Honnold, *Uniform Law* (n 15) 288. He supports that the buyer does not 'purchase a lawsuit.'

⁹⁷ Müller-Chen, 'Article 45' (n 11) 726.

⁹⁸ This point is discussed below in terms of unreasonable delay. See '4.5.2.1./2. Establishing Fundamental Breach for Article 42.'

⁹⁹ Multi-Member Court of First Instance of Athens (Greece) 2009 Decision 4505/2009 (PACE).

¹⁰⁰ Article 7(1) requires 'observance of good faith in international trade' while interpreting the CISG.

¹⁰¹ Similarly see Fitzgerald (n 71) 296.

4.3.3. Under the SGA

In English law, specific performance is provided by the SGA under s52, and regarding it is distinct from the civil law approach, its application is limited to certain conditions. Section 52 reads as follows:

(1) In any action for breach of contract to deliver specific or ascertained goods the court may, if it thinks fit, on the plaintiff's application, by its judgment or decree direct that the contract shall be performed specifically, without giving the defendant the option of retaining the goods on payment of damages.

(2) The plaintiff's application may be made at any time before judgment or decree.

(3) The judgment or decree may be unconditional, or on such terms and conditions as to damages, payment of the price and otherwise as seem just to the court.

Under English law, specific performance is an exceptional and equitable remedy,¹⁰² generally, the courts are unwilling to decree specific performance based on the general acceptance that damages can redeem the undertaking promised by the contract.¹⁰³ According to s52, the primary condition for granting specific performance is the inadequacy of damages as a remedy. Also, the goods must be specific or ascertained. Specific performance is awarded in accordance with the discretion of the court.

The reasons for the limitations applied to the availability of this remedy are said to be the requirement of 'constant supervision by the court',¹⁰⁴ the possibility that the breaching party will be punished by imprisonment if he does not follow the court order for specific performance,¹⁰⁵ the conflict between the requirement of specific performance and the duty to mitigate the loss, and it being an unreasonable remedy under some circumstances.¹⁰⁶ Although these points are regarded as explanations for the limitations set out in s52 and the courts' reluctance for decreeing specific performance, it is believed that most of them are not satisfactory reasons.¹⁰⁷

¹⁰² *Benjamin's Sale of Goods* (n 45) 17-096; Donald Harris, David Campbell and Roger Halson, *Remedies in Contract and Tort* (2nd Ed, Butterworths 2002) 166.

¹⁰³ Harris, Campbell and Halson (n 102) 166.

¹⁰⁴ *Co-operative Insurance Society Ltd v Argyll Stores (Holdings) Ltd* [1998] AC 1 (HL).

¹⁰⁵ *Barrel Enterprises, Re* [1973] 1 WLR 19 (CA), at 27. It is stated that 'When a person is committed for a contempt in process there are two reasons for imprisonment. One is that of punishment for disobedience to the order of the court; the other is that of seeking to enforce the order.'

¹⁰⁶ Hugh Beale and Others (eds), *Chitty on Contracts* (31st Ed, Sweet & Maxwell 2012) 27-002, See Solane Rowan, *Remedies for Breach of Contract: A Comparative Analysis of the Protection of Performance* (OUP 2012) 34-35.

¹⁰⁷ *Chitty on Contracts* (n 106); Rowan (n 106); Nevi Agapiou, 'Buyer's Remedies under the CISG and English Sales Law: A Comparative Analysis' (PhD thesis, University of Leicester 2016) 55-56.

4.3.3.1. Limitations

1. Inadequacy of Damages

Specific performance will not be granted if damages are an ‘adequate’ remedy.¹⁰⁸ Under which conditions damages are considered an ‘adequate’ (or sufficient) remedy has not been explicitly identified, although some authors and court decisions have attempted to determine those conditions. Where damages are nominal, or it is difficult to demonstrate the loss resulting from the breach of the contract or that loss is not ‘legally recoverable’, damages are considered inadequate.¹⁰⁹

In terms of the IPRs over goods, it first needs to be understood what kinds of losses the buyer may suffer due to third-party IPR infringement. The IPR holder may obtain injunctions to stop the buyer (who is acting as an infringer) from undertaking the infringing activities, which means that the buyer cannot continue re-selling the goods in question. Similarly, when the goods are seized at the border or the court orders the delivery up the goods in question, the buyer cannot undertake any commercial activity with these goods. When this the case, how the damages resulting from the buyer’s deprivation of the goods will be calculated is of importance.

There is also the risk that the deprivation of the goods may cause him to breach his contractual undertakings to the sub-buyers. Considering this, can damage being paid by the seller due to his breach of s12 deemed to be as ‘adequate’? In principle, all such losses are recoverable since the award of damages is designed to place the victim of the breach (the buyer) in the same financial position as he would have been if the seller had performed in full. The recoverability of such losses is subject to rules on the mitigation of loss, and the remoteness of the loss are discussed below.¹¹⁰ Such restrictions on the sums recoverable as damages are not legally regarded as making damages ‘inadequate’.

The test for ‘adequacy’ that applies to specific performance was set out in *Re Wait* under which the court stated ‘[...] Courts of equity did not decree specific performance in contracts for the sale of commodities which could be ordinarily obtained in the market where damages were a sufficient remedy.’¹¹¹ It can be deduced from this statement that when goods are ‘unique or

¹⁰⁸ See Jeff Berryman, ‘The Specific Performance Damages Continuum: An Historical Perspective’ (1985) 17 *Ottawa L. Rev.* 295; *Co-operative Insurance Society* (n 104) at 11.

¹⁰⁹ *Chitty on Contracts* (n 106) 27-009.

¹¹⁰ See ‘4.6.3.3. Remoteness of Loss’; *Hadley v Baxendale* (1854) 9 Exch. 341.

¹¹¹ [1927] 1Ch 606 at 630.

rare' or cannot be substituted, specific performance will be decreed.¹¹² In *Behnke v Bede Shipping Co.*,¹¹³ for example, the court decreed specific performance for a ship whose boilers met the expectations of a German buyer by complying with German regulations. The Court justified the decision on the ground that the ship was 'of peculiar and practically unique value to the plaintiff [...] The plaintiff wants the ship for immediate use, and I do not think damages would be an adequate compensation.'¹¹⁴ By contrast, in *Cohen v Roche*,¹¹⁵ the court did not decree specific performance to deliver Hepplewhite chairs, which were treated as 'an ordinary article of commerce'.¹¹⁶

This view raises the question of whether the goods subject to third-party IPRs constitute some degree of uniqueness or whether they can be considered as being available on the market. In the *Niblett* case,¹¹⁷ because the agreement was not concluded to supply a specific brand of condensed milk,¹¹⁸ it could not be claimed that tins bearing the brand name 'Nissly' carried a 'peculiar or unique' value for the buyer. Considering the statement made in the *Re Wait* case, the milk can be obtained in the market. However, in *Azzurri Communications Ltd. v International Telecommunications Equipment Ltd.*,¹¹⁹ the agreement was to supply a particular brand of handsets; can it, therefore, be accepted that a buyer's requirement for a particular brand or design indicates that the goods in question are unique for the buyer?

In fact, the particular brand, software, design or similar components carrying IPRs from the seller should have significant importance for the buyer when he especially asks for them. Even if the goods carrying these specifications may be regarded as 'unique' for the buyer, whether they can be acquired from another supplier must also be investigated. Where there are other suppliers (who are authorised by the IPR holder) in the market, it would be difficult to obtain specific performance. However, it has been argued that examining the availability of substitute goods may not always reveal the adequacy of damages, since criteria such as the quantification of the loss, and remoteness of the damage, play a role in determining the adequacy of damages.¹²⁰

¹¹² Ewan McKendrick (eds), *Goode on Commercial Law* (4th Ed, Penguin Books 2010) 393; *Benjamin's Sale of Goods* (n 45) 17-099.

¹¹³ [1927] 1 KB 649.

¹¹⁴ *Ibid* at 661.

¹¹⁵ [1927] 1 K.B. 169.

¹¹⁶ *Ibid* at 181.

¹¹⁷ *Niblett Ltd v Confectioners' Materials Co, Ltd* [1921] 3 KB 387.

¹¹⁸ *Ibid* at 392.

¹¹⁹ [2013] EWPC 17.

¹²⁰ Elizabeth Macdonald, 'The Inadequacy of Adequacy: The Granting of Specific Performance' (1987) 38 NILQ 244, 251-252.

Campbell draws a distinction between the use value and exchange value of goods and argues that if the party's main interest is in the exchange value, which is measured in money, damages are adequate.¹²¹ On that account, if the buyer intends to resell the goods subject to third-party IPRs, damages would be adequate to remedy the breach, whereas a buyer who prefers to use the goods in question for his business to produce new goods would be awarded specific performance. However, in *Cohen v Roche*, the lack of an existing 'special customer' was also taken into account when refusing the buyer's request.¹²² This reference to a 'special customer' suggests that if the seller had had a customer who was ready to buy the chairs in question, the court would have concluded that the buyer had a 'special value or interest' in the goods,¹²³ and therefore granted specific performance.

Given that, the justification for specific performance given in *Land Rover Group Ltd. v UPF (UK) Ltd.* may be applied to third-party IPR issues. The court held that Land Rover would suffer both 'the calculable loss' arising from the time spent to search for an alternative supplier and the investment cost of a new production line and 'the incalculable loss' in relation to 'its market position'.¹²⁴ Because the sizable damages involved cast doubt on the defendant's ability to pay, the court preferred to decree specific performance. From that perspective, if the buyer would bring about an infringement by importing the goods into a particular country, and this is now prevented by the IPR holder, the buyer may be forced to search for a new country of destination where an IPR infringement would not occur as well as a new customer in the new target country. In this situation, should the additional time investment be required to be accepted as a ground for the specific performance? If this question is examined in light of *Cohen v Roche*, in which the court refused to grant a specific performance due to the lack of a 'special customer', it is highly likely that the court would reject the buyer's claim for specific performance.

Nevertheless, it is an onerous task to investigate in which countries the goods in question would not be subject to a third-party IPRs, and subsequently to develop a commercial relationship in these countries. Also, there might not be an alternative market. For example, if the buyer is a seller of certain drugs which cure a specific disease in which is limited to certain locations, there is a risk of failure to find an available market. Such considerations regarding the

¹²¹ Harris, Campbell and Halson (n 102) 167-168. Also Ibid 251.

¹²² *Cohen* (n 115) at 179. McCardie J states: 'The plaintiff bought them in the ordinary way of his trade for the purpose of ordinary resale at a profit. He had no special customer in view. The lot was to become a part of his usual trade stock.'

¹²³ *Whitely, Limited v Hilt* [1918] 2 KB 808, Swinfen Eady M.R. at 819.

¹²⁴ [2002] EWCH 3183. Similarly *Sky Petroleum Ltd. v VIP Petroleum Ltd.* [1974] 1 WLR 576. The court decided for specific performance with consideration that the buyer would be in difficulty of finding an alternative source.

availability of customers and the time spent to search for them do not appear to have been taken into account by the courts. However, for the breaches of s12(1) and (2) based on IPRs issues, the courts should recognise the particular complexity of IPRs when deciding on the adequacy of damages.

In light of the cases presented, it may be argued that where goods subjected to IPRs carry 'special value and interest' for the buyer, or a sub-buyer who is ready to buy the goods exists, or even when the goods can be substituted, the time and effort required to search the market cause unbearable loss to the buyer. In such cases, damages would be considered insufficient, and thus specific performance would be available for the buyer.

2. Specific or Ascertained Goods

Section 52 by its explicit wording requires that specific performance is available where the delivery of 'specific or ascertained' goods is breached. What constitutes specific or ascertained goods must be established. However, the SGA only defines 'specific goods' in s61(1) as ones 'identified and agreed on at the time of contract sale is made'. By the amendment to the SGA, 'an undivided share, specified as a fraction of percentage, of goods identified and agreed on as aforesaid' is included in the scope of specific goods.¹²⁵ Given that, the situations where the goods sold as a specified fraction or percentage of bulk, and a specific quantity of goods from an identified bulk are distinguished from each other.¹²⁶ While the court has a discretion to decree specific performance in the former situation, it is not available in the latter.¹²⁷

The SGA does not provide a definition for either ascertained or unascertained goods. Nevertheless, three categories of goods are counted as being unascertained. These are generic goods, future goods and an unascertained quantity of ascertained goods.¹²⁸ If the goods sold are classified under one of these categories, they are not covered by s52. The meaning of 'ascertained goods' is provided in *Re Wait* as 'identified in accordance with the agreement after the time a contract of sale is made'.¹²⁹ The significant point between the goods which are specific or ascertained is the time when they are identified.

The question of whether the goods subject to IPRs are specified or ascertained goods within the meaning of s52 requires consideration. In the *Niblett* case,¹³⁰ which concerned a sale of a certain quantity of condensed milk, the goods can be classified as specified in quantity from an

¹²⁵ Sale of Goods (Amendment) Act 1995 s2(d).

¹²⁶ See *Goode on Commercial Law* (n 112) 230-233.

¹²⁷ *Chitty on Contracts* (n 106) 27-014; Ewan McKendrick, *Sale of Goods* (LLP 2000) 10-043.

¹²⁸ *Benjamin's Sale of Goods* (n 45) 5-060.

¹²⁹ *Re Wait* (n 111) at 630.

¹³⁰ *Niblett* (n 137).

identified bulk. The seller had various brands of milk, but the agreement did not refer to a specific brand. On the other hand, in the *Azzurri* case, the contract was made for certain handsets defined as ‘not like ordinary domestic telephones’.¹³¹ Where a dealer sells a certain type of goods (such as a specific brand) which come from a bulk of specified goods, these constitute specific goods when a ‘specified fraction or percentage from that bulk’ is being sold.

Whether the SGA restricts the award of specific performance only to cases where the goods are ‘specific’ or ‘ascertained is still a debatable point.’¹³² Some authors treat the SGA as a codification tool which rejects granting specific performance in circumstances which are not covered by the section, especially for unascertained goods.¹³³ Others argue that specific performance can be made available to the buyer in such cases ‘as commercially realistic’.¹³⁴ The supporters of this view refer the case of *Sky Petroleum Ltd. v VIP Petroleum Ltd.*,¹³⁵ in which the court granted specific performance although the contract was for the supply of petroleum, which is neither specific nor ascertained goods. This point has not been settled, however, and it is suggested that ‘the remedy should be available on the general principle governing its scope’.¹³⁶ On that basis, in cases where damages are inadequate, or it is not possible to acquire substitute goods, specific performance can become available to the buyer.¹³⁷

3. The Court’s Discretion

As being a discretionary remedy, specific performance is not granted automatically. Because of the phrase, ‘if it thinks fit’, the court will evaluate all the circumstances of the case and make its decision aiming to ‘do more perfect and complete justice’.¹³⁸ The court has the discretion to refuse a claim for specific performance even when damages are inadequate. Specific performance can be refused on the ground of mistake, impossibility, hardship, mutuality or unfairness, and such reasons cannot be excluded.¹³⁹

4.3.4. Comparison

Examination of the relevant rules of specific performance under the CISG and the SGA reveals the differences between the two legal instruments. The main difference is that the right to

¹³¹ *Azzurri* (n 119).

¹³² Piliounis (n 76)12.

¹³³ See Bradgate (n 44) 336; *Chitty on Contracts* (n 106) 27-014.

¹³⁴ See *Goode on Commercial Law* (n 112) 393; McKendrick *Sale of Goods* (n 127) 10-042.

¹³⁵ *Sky Petroleum* (n 124).

¹³⁶ *Chitty on Contracts* (n 106) 27-015.

¹³⁷ See McKendrick, *Sale of Goods* (n 127) 10-042. He states that: ‘such power might prove to be valuable in exceptional cases.’ See *Thomas Valley Power Ltd v Total Gas and Power Ltd* [2005] EWHC 2208 (Comm).

¹³⁸ See *Co-operative Insurance Society* (n 104) Lord Hoffman at 9.

¹³⁹ See Harris, Campbell and Halson (n 102) 178-187; *Chitty on Contracts* (n 106) 27-034 and 27-050; *Benjamin’s Sale of Goods* (n 45) 17-100.

require performance is the prime remedy under the CISG, which emphasises the preservation of the contract, whereas the SGA grants specific performance only in exceptional cases. Given that it is an exceptional remedy, s52 subjects it to limitations which are difficult to reconcile.¹⁴⁰ The SGA s52 treats inadequacy of damages as the most significant limitation, and also requires goods to be of certain types (specific and ascertained) in order to decree specific performance. The CISG does not examine the adequacy of damages. However, it limits the application of the remedy to cases where the buyer does not claim any inconsistent remedy, and by Article 28, under which performance can only be granted when the same remedies are available under the domestic court of the forum.

Under the CISG, while the buyer need not resort to the court, if the seller refuses to perform the contract, the buyer can make an application to the court.¹⁴¹ By contrast, under the SGA, specific performance is granted by the judgment or decree of the court. In English law, the courts have a broad discretionary power; thus they are not obliged to grant the remedy unless they think it fit to do so.¹⁴² Therefore, an English judge needs to take in consideration whether the damages will be inadequate as a remedial solution, whether the goods are specific or ascertained along with such conditions like the possibility and fairness of requiring performance. It is acknowledged that English courts are unwilling to decree specific performance. Even when the availability of requiring the performance is not a problem, there is no widespread application of this remedy.¹⁴³

This discretionary power of English courts can be compared to the CISG's limitation on granting performance contained in Article 28. By the inclusion of Article 28, the CISG provides a compromise between common and legal systems, and seeks to achieve this aim by allowing the courts in a common law system to decide according to 'its own law in respect of similar contracts'.¹⁴⁴ The courts will decide whether it would grant specific performance considering the circumstances under its domestic law. By this consideration, it is believed that the specific performance is a discretionary remedy under the CISG.¹⁴⁵ It may be argued that because the CISG and the SGA employ the same level of court discretion; whether the remedy will be granted is not precise in either the SGA or the CISG.

¹⁴⁰ See *Chitty on Contracts* (n 106) 27-001.

¹⁴¹ Secretariat Commentary, 'Article [46]' (n 60).

¹⁴² *Benjamin's Sale of Goods* (n 45) 17-099, 17-100.

¹⁴³ UNCITRAL Digest 2016 (n 74) 221.

¹⁴⁴ See Article 28.

¹⁴⁵ See Kastely (n 60) 637; Fitzgerald (n 71) 299.

Regarding the court's discretion, Walt argued, on the contrary, that 'Article 28 gives no discretion to a court. If specific relief *would* be ordered under [domestic law], a court *must* make the remedy available under the CISG. The injured buyer, not the court, has discretion by way of electing between remedies.' Although the parties have the right to elect the specific performance, Kastely criticised this inclusion by stating that 'this section creates an irreconcilable conflict in the Convention's remedial provisions.'¹⁴⁶ The main problem which is created by Article 28 is uncertainty regarding the availability of specific performance. Hence, leaving the question of availability of specific performance to the domestic law of the courts raises whether specific performance will not be granted when the case heard in the court of common law jurisdictions.

Comparing with the specific performance rules of the civil and common law jurisdictions, Honnold argued that '[“]Common law[”] restrictions on requiring (specific) performances of sellers obligations are sometimes exaggerated.'¹⁴⁷ On a similar account, Walt claimed that under the US domestic law specific performance is 'generally available' despite being a common law jurisdiction.¹⁴⁸ Although the claims that Article 28 has no impact on granting the specific performance, the lower number of case law related to the buyer's request for performance do not assist in acquiring precise information on the effect of different approaches employed by divergent CISG member states. Although, the UNCITRAL Digest informs that 'the right to require performance has not often been invoked in reported decisions',¹⁴⁹ Agapiou reasonably claims that the buyer does not need to resort the courts for requiring performance, the parties may resolve the issue by themselves.¹⁵⁰ Therefore, exercising this remedy under the CISG is more 'frequent' than under the SGA based on the consideration that under the CISG, the seller can perform the contract following the buyer's request without any court order, and the buyer's right to require performance will frequently be available under the civil law jurisdictions,¹⁵¹ and the limitations applied by s52 on granting specific performance.¹⁵²

Even though the availability of specific performance to the CISG buyer is higher than under the SGA, the limited number of cases seeks the seller to perform his obligations raises the concerns why this is the situation. The UNCITRAL Digest states that 'Despite its importance, [...] In practice, aggrieved parties have generally preferred to pursue other remedies—in

¹⁴⁶ Kastely (n 60) 625.

¹⁴⁷ Honnold, *Uniform Law* (n 15) 306.

¹⁴⁸ Walt (n 67) 233, Similary Catalano (n 79) 1818.

¹⁴⁹ UNCITRAL Digest 2016 (n 74) 221 note 4.

¹⁵⁰ Agapiou (n 107) p51.

¹⁵¹ Robert Bejesky, 'The Evolution in and International Convergence of the Doctrine of Specific Performance in Three Types of States' (2002) 13 *Ind. Int'l & Comp. L. Rev.* 353; Koskinen (n 79), Fitzgerald (n 71).

¹⁵² Pillionis (n 121) 15.

particular the right to claim damages.’¹⁵³ Even the Digest acknowledges the importance of specific performance; it does not explain why the parties prefer other remedies. In a general observation in the remedial scheme, the arguments against the specific performance are developed on enforcement problems, for example, which actions are acceptable to be entailed fulfilment of the buyer’s request for performance or if the seller fails to comply with request how it will be enforced.¹⁵⁴ In terms of third-party IPRs, the question of which acts can be considered as complying the specific performance is answered. According to this, obtaining a licence from the right holder, or reaching a settlement with third-party or delivering the goods that do not infringe third-party IPRs are counted as acts of specific performance. It is crucial that the circumstances should allow reaching dealings with IPRs holder. The same considerations can apply when evaluating specific performance under the SGAs52.

Also, it is believed that when the damages are adequate, the parties choose to claim damages. Conversely, when quantifying the damages is not possible, specific performance can be preferred.¹⁵⁵ That regard, Walt argued that it could be difficult to an ascertain available market price for such high technology products whose importation consists of a significant portion in trade, and also the seller has more knowledge about these.¹⁵⁶ Under these situations ‘proof costs may exceed post-breach negotiation costs’ and ‘the seller's cover costs may be lower than the buyer's.’¹⁵⁷ Regarding the goods subject to IPRs, this concern should be applied, and specific performance should be granted when it is available to obtain a licence, or the seller can deliver such goods that are not subjected to third-party IPRs. Also taking into consideration the international sales, rather than spending the time and effort to mitigation the loss or finding an available market that are required for damages, choosing to remove third-party IPRs over the goods by way of settlements, or based on the seller’s previous dealing with the IPR holder can solve the problems easily.

4.4. The Buyer’s Right to Fix an Additional Period of Time

The CISG allows the buyer to fix an additional period of time for the seller to perform his obligation under Article 47. The remedy has two significant effects: the ability to claim the right to avoid the contract if the seller fails to perform his obligation at the end of the fixed period, and restriction of the buyer’s right to resort to other remedies available for him within

¹⁵³ UNCITRAL Digest 2016 (n 74) 221 note 4.

¹⁵⁴ Henrik Lando and Caspar Rose, ‘On the Enforcement of Specific Performance in Civil Law Countries’ (2004) 24 *International Review of Law and Economics* 473, 480-481.

¹⁵⁵ See Theodore Eisenberg and Geoffrey P Miller. ‘Damages versus Specific Performance: Lessons from Commercial Contracts’ (2015) 12 *Journal of Empirical Legal Studies* 29.

¹⁵⁶ Walt (n 67) 236.

¹⁵⁷ *Ibid.*

the fixed period.¹⁵⁸ The SGA does not contain any provision which either serves to require performance by the seller or has similar effects;¹⁵⁹ therefore, only the CISG's provision for the right to fix an additional time is examined here. A comparative analysis is not provided under this heading.

4.4.1. Under the CISG

The buyer may fix an additional period of time of reasonable length for performance by the seller of his obligations. This remedy allows granting additional time to perform the obligation in case of a delay in performance or gives time to cure the performance. Article 47 follows:

(1) The buyer may fix an additional period of time of reasonable length for performance by the seller of his obligations.

(2) Unless the buyer has received notice from the seller that he will not perform within the period so fixed, the buyer may not, during that period, resort to any remedy for breach of contract. However, the buyer is not deprived thereby of any right he may have to claim damages for delay in performance.

This remedy is regarded as 'a companion' of Article 46.¹⁶⁰ Even though it is used with specific performance, it is considered to be 'a separate remedy'.¹⁶¹ Although there are some doubts, additional time can be fixed for any breach of the seller's obligation.¹⁶² It can be said that this remedy can be applicable to cases falling under Article 42 when it is reasonable and possible to claim the right to require performance according to Article 46(1).

The right to fix an additional time eliminates the uncertainty about when the seller will perform his obligation in cases where the buyer claims performance and about whether the delay of the performance constitutes a fundamental breach which could trigger a claim for the avoidance of

¹⁵⁸ Huber, 'Article 47' in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 702.

¹⁵⁹ See Anette Gartner, 'Britain and the CISG: The Case for Ratification- A Comparative Analysis with Special Reference to German Law' in Pace International Law Review (eds) *Review of the Convention on Contracts for the International Sale of Goods (2000–2001)* (Kluwer Law International 2002), 61
<<https://www.cisg.law.pace.edu/cisg/biblio/gartner.html>> accessed 17 March 2017.

¹⁶⁰ See Secretariat Commentary, 'Article [47]' *Official Records* (n 23) note 2. This remedy referred to as Nachfrist principle that is provided under German law and French domestic law. However, there is significant difference between the application of Nachfrist under German and French law and the one set under the CISG. Therefore, it is suggested by some authors that it is not to make any reference to term and the concept of Nachfrist while examining the article. See Huber, 'The Structure of Remedies' (n 5) 20–21, Bruno Zeller, in Match-up of CISG Articles 47 and 49(1)(b) with PECL Article 8:106; Butler (n 67) §6.04.

¹⁶¹ Pilar Perales Viscasillas, 'The Nachfrist Remedy' in Collated Papers of the UNCITRAL and Singapore International Arbitration Centre Conference (SIAC) (22–23 September 2005, Singapore), *Celebrating Success: 25 Years United Nations Convention on Contracts for the International Sale of Goods*, 89
<<http://www.cisg.law.pace.edu/cisg/biblio/perales6.html#ii>> 23 March 2017. Cf. see Piliounis (n 76) 19.

¹⁶² See Viscasillas (n 161) 93. Cf Ziegel (n 54). Ziegel raised doubts whether the article is applicable only for delayed performance.

the contract.¹⁶³ It has been accepted that the relationship between Article 47 and Article 49 (right to avoid the contract) is ‘the importance of the provision’.¹⁶⁴

4.4.1.1. Requirements

1. Declaration of Demand for Performance

In order to fix an additional time, the buyer must clearly declare his claim for performance by the seller.¹⁶⁵ The use of polite words may be considered insufficiently clear about the buyer’s demand.¹⁶⁶ According to Will, the notice is clear when ‘a reasonable seller’ would understand without additional explanation or interpretation that it is his last chance to perform.¹⁶⁷ In terms of a breach of Article 42, requiring either the delivery of goods which do not infringe any third-party IPRs or the removal of third-party IPRs can be deemed as clear notice made by the buyer.

2. Fixing a Reasonable Period of Time

The additional period must be specified and be of reasonable length with respect to the buyer’s discretion.¹⁶⁸ There should be a definite period of time specified by the buyer. Thus, any reference to ‘immediate performance’ or ‘perform within a reasonable time’ does not fulfil this requirement.¹⁶⁹

What constitutes a reasonable time period is not precisely determined by Article 47. Some authors hold the view that this can be established according to the circumstances of each case.¹⁷⁰ When deciding upon the reasonable time, elements such as the effect of the delay on the buyer and the time needed by the seller for delivery, need to be considered.¹⁷¹ Other authors follow a different route.¹⁷² In that regard, Honnold argues that since Article 47 employs ‘flexible language’, ‘the buyer’s need for delivery of the goods without further delay’ needs to be observed.¹⁷³ Although there appear to be two different views on the determination of the reasonableness of additional time, it can be supported that the circumstances of each case also

¹⁶³ Michael Will, ‘Article 47’ in Bianca/Bonell (eds) (n 56) 343; Schlettriem/Butler (n 37) 139.

¹⁶⁴ Huber, ‘Article 47’ (n 158) 702; Müller-Chen, ‘Article 47’ in Schwenger (n 31) 755-756.

¹⁶⁵ See *Oberlandesgericht Hamburg* (Germany) 28 February 1997 (CLOUT no. 277). The court accepted the buyer’s declaration as clear.

¹⁶⁶ Müller-Chen, ‘Article 47’ (n 164) 757; Huber, ‘Article 47’ (n 158) 703; John C. Duncan, Jr., ‘Nachfrist was ist? Thinking Globally and Acting Locally: Considering Time Extension Principles of the U.N. Convention on Contracts for the International Sale of Goods in Revising the Uniform Commercial Code’ [2000] *Brigham University L. Rev.* 1363, 1382. See *Federal District Court Florida* (United States) 23 January 2013 (PACE).

¹⁶⁷ Will, ‘Article 47’ (n 163) 345.

¹⁶⁸ Honnold, *Uniform Law* (n 15) 315.

¹⁶⁹ Huber, ‘Article 47’ (n 158) 704; Secretariat Commentary, ‘Article [47]’ (n 160) note 7.

¹⁷⁰ Huber, ‘Article 47’ (n 158) 704; Will, ‘Article 47’ (n 163) 345; Enderlein/Maskow (n 39) 182.

¹⁷¹ Müller-Chen, ‘Article 47’ (n 164) 758.

¹⁷² See Viscasillas (n 161) 99.

¹⁷³ Honnold, *Uniform Law* (n 15) 420-421.

cover the buyer's needs.¹⁷⁴ In conclusion, the buyer's interest in rapid delivery if it is apparent when concluding the contract, the nature of the seller's obligation, which may require a longer time to perform, and the time which passes to declare the additional period of time, need to be taken into account.¹⁷⁵

In terms of Article 42, 'reasonable time' should be decided with consideration of the time which the seller needs to obtain an IPR license, or establish the real nature of the claim (whether the claim is valid or ill-founded), or deliver goods which are in conformity with the contract and do not infringe third-party IPRs.

4.4.1.2. Consequences

1. Avoidance

As will be discussed later in this chapter, a breach by the seller must constitute a fundamental breach to be able to avoid the contract under Article 49.¹⁷⁶ However, it is possible to avoid the contract if the seller fails to perform his obligation within the additional time fixed by the buyer.

2. Suspension of Remedies

Until the expiration of the time fixed by the buyer, or until the seller notifies the buyer that he will not perform his duty within that period, the buyer's claim for other remedies is suspended. He cannot avoid the contract or reduce the price during this specified period, whereas he can withhold the payment of the price.¹⁷⁷

4.5. Avoidance

4.5.1. Introduction

In case of a breach of a contract which carries a high degree of seriousness, the buyer is provided with a remedy which puts an end to the contract.¹⁷⁸ Since the parties are released from their contractual obligations by the avoidance of the contract, the CISG treats it as 'a remedy of last resort (*ultima ratio*) that is available when the buyer can no longer be expected to

¹⁷⁴ That regard see *Oberlandesgericht Naumburg* (Germany) 27 April 1999 (UNILEX). The Court stated that: 'When determining a reasonable time for delivery, it is of the essence to consider the statements of the parties and the concrete contractual circumstances.'

¹⁷⁵ Müller-Chen, 'Article 47' (n 164) 758.

¹⁷⁶ See '4.5. Avoidance'.

¹⁷⁷ Huber, 'Article 47' (n 158) 706.

¹⁷⁸ Bridge, *The Sale of Goods* (n 45) 565.

continue the contract.’¹⁷⁹ Although the avoidance under the SGA is deemed as ‘relatively broad’,¹⁸⁰ similar to the CISG, it also concerns the degree of seriousness of the breach.¹⁸¹

The CISG and the SGA employ different terminology for this kind of remedy. The former uses the term ‘avoidance’, and ‘mixes the language of breach and non-performance, instead of simply referring to breach.’¹⁸² The SGA employs the term ‘termination’, which refers to ‘the remedy by which one party (the “injured”) is released from his obligation to perform because of the other party’s defective or non-performance’.¹⁸³ In this chapter, the term ‘avoidance’ is employed to prevent any confusion arising because Article 29 of the CISG uses the term ‘termination’ in a manner which rules out the termination of the contract ‘by the mere agreement of the parties.’

This section examines the buyer’s right to avoid the contract under the CISG along with the articles that set the effects of the avoidance and the buyer’s right to terminate the contract provided under the SGA along with the relevant sections. After the expositions of the requirement for the avoidance and its effect under each legal instruments, a comparative analysis on the provisions as a whole is provided.

4.5.2. Under the CISG

The CISG establishes the buyer’s right to avoid the contract under Article 49. Article 49(1) determines explicitly the conditions under which the buyer bring about avoidance, according to this where the seller’s breach of the obligation constitutes a fundamental breach, and where the seller fails to deliver the goods within the additional period fixed by the buyer, the buyer can exercise Article 49. Article 49(2) determines the time limits on the declaration of avoidance of the contract. These rules are examined in the contexts of the aim and focus of this thesis; hence the issues which are relevant to the breach of Article 42 are raised and explored. Firstly, the conditions for the right to avoid are analysed. This analysis is followed by a discussion of the rules for a declaration of avoidance and finally an examination of the effects of avoidance.

4.5.2.1. Article 49(1)(a)

Article 49(1)(a) reads: ‘the buyer may declare the contract avoided: if the failure by the seller to perform any of his obligations under the contract or this Convention amounts to a fundamental breach of contract’. The CISG differs from most legal systems by requiring a

¹⁷⁹ UNCITRAL Digest 2016 (n 74) 230 note 2.

¹⁸⁰ Rowan (n 106) 70.

¹⁸¹ Bridge, *The Sale of Goods* (n 45) 509; Darren Peacock, ‘Avoidance and the Notion of Fundamental Breach under the CISG: An English Perspective’ (2003) 8 Int’l. Trade & Bus. L. Ann. 95, 106.

¹⁸² Bridge, *The Sale of Goods* (n 45) 566.

¹⁸³ Edwin Peel, *Treitel The Law of Contract* (14th Ed, Sweet & Maxwell 2015) 953.

fundamental breach for applying avoidance.¹⁸⁴ Establishing a high threshold for avoidance is a result of the main objective of the CISG, which is to keep the contract alive as far as possible,¹⁸⁵ and regarding avoidance as a severe and exceptional remedy that is applied as a last resort.¹⁸⁶ Article 25 defines what amounts to a fundamental breach; thus, following the conditions set under this article, subsequent headings discuss when the breach of Article 42 causes a fundamental breach.

1. Fundamental Breach

Article 25 reads:

A breach of contract committed by one of the parties is fundamental if it results in such detriment to the other party as substantially to deprive him of what he is entitled to expect under the contract, unless the party in breach did not foresee and a reasonable person of the same kind in the same circumstances would not have foreseen such a result.

The definition of the fundamental breach has been criticised as being vague and failing to establish a coherent rule that can be applied easily.¹⁸⁷ Despite this criticism, some authors argue that, based on the requirements set by the article, general guidance for establishing fundamental breach can be provided.¹⁸⁸ For a breach to be established as 'fundamental', two requirements must be met: substantial detriment and foreseeability. These are explored briefly below.

Substantial Detriment

The buyer must suffer a detriment that causes substantial deprivation of his contractual expectations. Although the CISG does not define 'detriment' or 'substantial deprivation', regarding the Secretariat Commentary, a detriment includes a monetary loss or harm.¹⁸⁹

¹⁸⁴ See Micheal Bridge, *International Sale of Goods* (3rd Ed, OUP 2013); Treitel, *Remedies for Breach* (n 4) 251; McKendrick *Sale of Goods* (n 127) 484; Igneborg Schwenger, 'The Danger of Domestic Preconceived Views with Respect to the Uniform Interpretation of the CISG: The Question of Avoidance in the Case of Non-Conforming Goods and Documents' (2005) 36 *Victoria U. Wellington L. Rev.* 795.

¹⁸⁵ Huber, 'Article 46' (n 34) 694; Peter Huber, 'Typically German? -- Two Contentious German Contributions to the CISG' (2011) 3 *Belgrade Law Review* 150.

¹⁸⁶ See Huber, 'The Structure of Remedies' (n 5); Ulrich G. Schroeter, 'Article 25' in Schwenger (eds) (n 11) 417.

¹⁸⁷ See Andrea Björklund, 'Article 25' in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 337; Schroeter (n 186) 421; Robert Koch, 'The Concept of Fundamental Breach of Contract under the United Nations Convention on Contracts for the International Sale of Goods (CISG)' in *Pace Review of the Convention on Contracts for the International Sale of Goods (CISG)* (1998) (Kluwer Law International 1999) 177, 183 <<http://www.cisg.law.pace.edu/cisg/biblio/koch.html>> accessed 5 April 2017.

¹⁸⁸ See Franco Ferrari, 'Fundamental Breach of Contract under the UN Sales Convention-25 Years Article 25 CISG' (2005) 25 *J.L. & Com* 389, 493; Leonardo Graffi, 'Case Law on the Concept of "Fundamental Breach" in the Vienna Sales Convention' [2003] *Int'l Bus. LJ* 338.

¹⁸⁹ See Secretariat Commentary, 'Article [25]' in *Official Records* (n 23) Note 3; Andrew Babiak, 'Defining "Fundamental Breach" under the United Nations Convention on Contracts for the International Sale of Goods' (1992) 6 *Temple International and Comparative Law Journal* 113.

Detriment is not restricted to monetary loss,¹⁹⁰ however; it is broadly interpreted as including the contractual expectations of the buyer.¹⁹¹

In terms of substantial deprivation, the assessment of the deprivation can be made on the basis of either the parties' express or implied intention to treat an obligation or a contractual term as fundamental or the importance of the breached obligation to the buyer.¹⁹² The breach and its results are examined on the basis of whether 'the purpose of the contract is endangered so seriously that, for the concerned party to the contract, the interest in the fulfilment of the contract ceases to exist as a consequence of the breach of the contract'.¹⁹³

Foreseeability

In order to comply with Article 25, a substantial deprivation as a result of the breach is not enough. The result also must have been foreseeable. The function of the foreseeability requirement has received difficult interpretations. It has been regarded as a filter,¹⁹⁴ or a limitation of the buyer's right to avoid the contract,¹⁹⁵ akin to the rule under Article 74,¹⁹⁶ or as a tool for evaluating the extent of the importance of the breached obligation to the buyer.¹⁹⁷

Foreseeability depends on the 'actual subjective knowledge of the defaulting party'.¹⁹⁸ Not only the defaulting party's knowledge but also a reasonable person in the same circumstances, matters to foreseeability. Given that the CISG applies to commercial contracts, a 'reasonable person' is interpreted as a 'reasonable merchant' who acts like a professional in the same business and takes account of the conditions applied to trade.¹⁹⁹ The time at which the 'foreseeability' of the cause of the breach needs to be established is disputed,²⁰⁰ but the predominant view holds that this is at the time of the conclusion of the contract.²⁰¹

¹⁹⁰ It is strictly highlighted that detriment under Article 25 is not similar with damages under Article 74. See Michael Will, 'Article 25' in Bianca/Bonnell (eds) (n 56) 211.

¹⁹¹ Schroeter (n 186) 428; Björklund (n 187) 337; Micheal Bridge, 'Avoidance for Fundamental Breach of Contract under the UN Convention on the International Sale of Goods' (2010) 59 ICLQ 911, 918; Will, 'Article 25' (n 190) 211. Will states: 'Detriment does not equal damage nor does it equal loss or any similar international or national term of art.'

¹⁹² Huber/Mullis (n 19) 214-215; Ferrari (n 188) 495-499.

¹⁹³ *Oberlandesgericht Frankfurt am Main* (Germany) 17 September 1991 (UNILEX). Similarly, *Schweizerisches Bundesgericht* (Switzerland) 15 September 2000 (UNILEX). The court assessed the breach whether 'the performance of the breached contractual clause so essential that he would have refused the contract if he had known of such future breach.'

¹⁹⁴ Will, 'Article 25' (n 190) 215; Graffi (n 188) 340.

¹⁹⁵ Enderlein/Maskow (n 39) 115; Koch (n 187) 264.

¹⁹⁶ Björklund (n 187) 340; Will, 'Article 25' (n 190) 217; Koch (n 187) 264.

¹⁹⁷ Schroeter (n 186) 431.

¹⁹⁸ Ferrari (n 188) 499.

¹⁹⁹ Babiak (n 162) 122. See Will, 'Article 25' (n 190) 220.

²⁰⁰ See Bridge, 'Avoidance' (n 189) 925-926

²⁰¹ Ferrari (n 188) 500; Schroeter (n 186) 434.

2. Establishing Fundamental Breach for Article 42

Whether the buyer can employ the right to avoid the contract in cases where the seller failed to deliver the goods free from any third-party IPRs is the central question within this thesis. It is generally acknowledged that breach of Article 42 is akin to cases of non-conformity; therefore the analysis of avoidance on the ground of delivery of non-conforming goods is applicable.²⁰²

Firstly, whether the breach of Article 42 is deemed to be a fundamental one, which enables the buyer to avoid the contract, is examined. As was explained in 4.2.1.1, the CISG drafters did not follow the approach in the ULIS Article 52 of including all the available remedies for the buyer within the wording of one article. Article 52 did not accept that the seller's breach directly caused a fundamental breach because a reasonable time for the goods becoming free from third-party rights and claims should have passed in order to apply the right to avoid the contract.²⁰³ It cannot be *ipso facto* such a breach but raises the possibility of that result.

In the drafting process of the CISG, some representatives argued that there was no need to wait for a reasonable time for applying the fundamental breach; hence the remedies for non-conformity cases should also be available when the ULIS Article 52 was breached.²⁰⁴ However, others rejected this view and argued that these two situations should be treated differently.²⁰⁵ In the Recommendations of the Pending Questions, available remedies indicated under Article 52 were left to the articles which were specifically designated for the remedies for the breach of the contract.²⁰⁶

In my view, although the ULIS Article 52 makes no reference to IPRs, acknowledgement of a fundamental breach when third-party rights and claims occurred may lead to the same result where there is a breach of Article 42. It cannot be *ipso facto* such a breach but raises the possibility of that result.

In the light of the definition under Article 25, whether the breach of Article 42 may amount to substantial deprivation should be considered. When a third-party prevents the buyer to use or resell of the goods in question by way of an injunction, or the court order for delivery up, or

²⁰² Huber, 'Article 49' in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 735; Huber/Mullis (n 19) 232.

²⁰³ See ULIS Article 52; Honnold, *Documentary History* (n 23) 226 note 117.

²⁰⁴ Honnold, *Documentary History* (n 23) 107 C.41 notes 133-134; UNCITRAL Yearbook Volume III (n 23) 90 note 133; UNCITRAL Yearbook Volume VIII (n 24) p139 note 25, p147 note 5(b), p152 notes 6-7; Summary Records of Meetings of the First Committee 17th meeting (n 23) note 67. Norway proposed that when the goods do not conform with the contract in addition to the third-party IPRs over them, the buyer could be allowed to apply for the remedies for non-conformity of the goods.

²⁰⁵ Honnold, *Documentary History* (n 23) p107 C.41 note 133-134; UNCITRAL Yearbook Volume III (n 23) 90 notes 132-134; Summary Records of Meetings of the First Committee 17th meeting (n 23) note 69.

²⁰⁶ *Ibid* 226 note 117.

the seizure of the goods at the borders, the buyer's contractual expectations are clearly hampered. Where the goods cannot be resold as a consequence of IP law remedies, this can trigger the breach of sales agreements between the buyer and his sub-buyers, if acquiring substitute goods from other suppliers would be time-consuming especially in terms of avoiding IPRs infringements. The time spent to search for the goods which will not create any third-party IPRs infringements, finding and contracting with a new seller, or the time spent on producing new goods, increase the period during which could the buyer cannot pursue his intentions of undertaking commercial activities related to the goods in question. In addition, if these goods infringed third-party IPR may be used as the main ingredient of the goods which will be produced by the buyer, it needs to be accepted that the buyer suffers such substantial detriment.

Not only the third-party's existing IPRs but also claims to them can cause such substantial deprivation due to a lengthy litigation process.²⁰⁷ As was argued previously, if it takes a substantial time to reveal the exact nature of the third-party's claims (i.e. whether his claim is rightful and based on an IPR), the buyer's enjoyment of the goods in question is seriously disturbed, thus resulting in a 'a substantial detriment', causing a fundamental breach.²⁰⁸ It is acknowledged that if the seller defeats the claim without unreasonable delay, there would not be a detriment that causes a fundamental breach.²⁰⁹ What constitutes unreasonable delay or what time period for deciding upon the litigation will count as long-lasting has not been analysed in the literature. In order to comprehend what is an 'unreasonable delay' within the scope of Article 41, Article 48 requires the seller to perform his obligation after the date of delivery without 'unreasonable delay', can be employed. When the literature on Article 48 is examined it can be seen that there is no definite answer given to the threshold of the 'unreasonable delay'. It is believed that rather than determining a general principle for this, the occurrence of 'unreasonable delay' should be decided upon the facts of each case. According to literature 'unreasonable delay' should be tested on the facts of each situation. If the buyer has to wait for a decision during the time period for defeating the claim, and therefore cannot perform his obligation to his sub-buyers (either by way of not being able to resell the goods or use the goods in order to produce new products) and the damages which he is obliged to pay to his sub-buyers exceeds the available remedy he has against the seller, it should be accepted that there is an unreasonable delay on the buyer's side.

²⁰⁷ See '3.2.1.2. Third-Party Claims' and '3.2.2.2. Third-Party Intellectual Property Rights'

²⁰⁸ '3.2.2.2./1. Third-Party Rights and Claims Based on IIP Rights'.

²⁰⁹ Ingeborg Schwenzer, 'Article 41' in Schwenzer (n 11) 685; Stefan Kröll, 'Article 41' in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 639; Metzger (n 34) 198 Honnold, *Uniform Law* (n 15) 387.

Also, it needs to be established whether the cause of the detriment was foreseeable. As foreseeability depends on the ‘actual subjective knowledge of the defaulting party’,²¹⁰ the seller’s knowledge on the States where the goods are used or resold defined Article 42 should be accepted as the result is foreseen. In particular, when the buyer specifies certain countries in which to use or resell the goods in question, the existence of any third-party IPRs within that country cannot be deemed unforeseeable at the time of the conclusion of the contract.²¹¹

Although a fundamental breach is required to avoid a contract, the mere application of the fundamental breach rule under Article 25 is not enough to enable avoidance. There are four criteria need to be assessed, and these are presented below.²¹²

Contractual Agreement

The contracting parties may determine which of the requirements carry such fundamental importance that its breach leads to avoidance of the contract. This determination can be made either expressly or impliedly. Thus, whether the delivery of the goods in accordance with Article 42 is defined as fundamental can be tested by determining the intention of the parties and whether the buyer expressly or impliedly indicated that the goods must be free from any third-party IPRs and claims. There is no problem in cases of express determination of his intent; but when the indication is implied, further attention is required.

Whether the type of goods which are mostly subjected to IPRs (such as smartphones, or goods bearing certain trademarks) or the buyer’s course of business (as being a professional who only sells the licensed products) can be taken into account is open to question. It is suggested that interpretation of the parties’ intention by virtue of the contractual language and the practice between the parties, and other circumstances,²¹³ the buyer’s course of business, and the type of the goods, may be used to determine the implied treatment of Article 42 as fundamental.²¹⁴

Seriousness of Breach

The seriousness of the breach is primarily based on the buyer’s expectations and deprivations.²¹⁵ In the light of the definition under Article 25, whether the breach of Article 42 may amount to substantial deprivation of the buyer needs to be examined. It needs to be asked

²¹⁰ Ferrari (n 188) 499.

²¹¹ See Schroeter (n 186) 433; *Oberster Gerichtshof* (Austria) 21 June 2005 (PACE).

²¹² See Huber ‘Article 49’ (n 202).

²¹³ Ferrari (n 188) 495-496.

²¹⁴ While dealing with the buyer’s knowledge of the actual or potential third-party IPRs claims, the buyer’s profession was considered in a French case. *Cour d’appel de Colmar* (France) 13 November 2002 (PACE). This consideration may be applied to determine to what extent the delivery of the goods free from third-party IPRs is important for the buyer, or when the seller who knows the goods better.

²¹⁵ Huber, ‘Article 49’ (n 202) 726.

whether the buyer would not have entered the contract if he had known of the third-party IPRs over the goods.²¹⁶

When a buyer wishes to buy the goods bearing a certain brand, delivery of counterfeit goods causes a breach of what the buyer expected from the sale contract. If the buyer had known the goods were produced without a valid license from the right holder, he would have concluded his contract with another seller. In such situations, if the goods come with software components which infringe a third-party's IPRs, it is highly likely that there is a fundamental breach, since this software is significant and without it the goods become redundant.²¹⁷

Seller's Right to Cure

The seller's right to cure the breach under Article 48 is also considered when deciding upon avoidance.²¹⁸ Article 48(1) makes a reservation in favour of Article 49, which is accepted as 'the priority of the buyer's remedy of avoidance over the seller's right to cure'.²¹⁹ However, there are controversial issues which remain unsettled.²²⁰ According to Will, when it is accepted that the buyer's declaration of avoidance overrides the seller's right to cure, the seller's right under Article 48 is left to 'the buyer's mercy'.²²¹ Otherwise, the buyer would have to wait for the seller's declaration that he will not cure the defect, and this loss of time may cause him to incur other damages.²²² It is suggested that these problems can be overcome through communication between the parties.²²³

The predominant view favours taking into account the seller's right to cure. Thus, when it is possible to cure the defect without unreasonable delay or unreasonable inconvenience to the buyer, the breach is not accepted as fundamental.²²⁴ However, an immediate right to avoid the contract is available when the defect is so serious.²²⁵

²¹⁶ See *Schweizerisches Bundesgericht* (Switzerland) (n 193).

²¹⁷ See Sarah Green and Djakhongir Saidov, 'Software as Goods' [2007] *Journal of Business Law* 161. They define the software as 'a term used to describe the collections of instructions and data (also referred to as programs), that allow computers to operate'. See Frank Diedrich, 'Maintaining Uniformity in International Uniform Law Via Autonomous Interpretation: Software Contracts and the CISG' (1996) 8 *Pace International L. Rev.* 303, 309. See *Federal District Court Texas* (United States) 15 January 2002 (PACE).

²¹⁸ Although this thesis does not examine the seller's right to cure, but the relationship between Article 48 and Article 49 is addressed briefly.

²¹⁹ Michael Will, 'Article 49' in Bianca/Bonell (eds) (n 56) 362; Cf. see Müller-Chen, 'Article 48' in Schwenzer (n 11) 770.

²²⁰ Michael Will, 'Article 48' Bianca/Bonell (eds) (n 56) 349.

²²¹ *Ibid* 349.

²²² *Ibid* 350.

²²³ Müller-Chen, 'Article 48' (n 220) 769, Honnold, *Uniform Law* (n 15) 427.

²²⁴ See Secretariat Commentary, 'Article [49]' *Official Records* (n 23) note 6; Müller-Chen, 'Article 48' (n 219) 769; Honnold, *Uniform Law* (n 15) 427; Huber, 'Article 49' (n 202) 727. See *Oberlandesgericht Koblenz* (Germany) 31 January 1997 (UNILEX).

²²⁵ See Secretariat Commentary of Article [49] (n 224) note 5.

Whether third-party IPRs over the goods in question entitles the buyer to an immediate avoidance is of importance. Huber suggests that the existence of a right to immediate avoidance should be assessed based on a legitimate interest.²²⁶ In such cases, if the conformity of the goods to specifications under the contract is significant to the buyer, or if, by delivering counterfeit goods, the seller impaired the trust between the parties,²²⁷ the buyer has a legitimate interest.²²⁸ When the seller delivers counterfeit goods or goods without a valid license, it is difficult to believe that the seller will be able to cure these defects without further delay or inconvenience.

Reasonable Use Test

Reasonable use is another criterion for assessing the applicability of avoidance, according to which, if it is possible to make reasonable use of the goods other than as intended when undertaking a sales contract, such as reselling the goods at a lower price, there is no fundamental breach.²²⁹ This test is accepted by German and Swiss courts,²³⁰ but has not gained universal recognition. It is argued that this test puts an unreasonable burden on the buyer to reconsider an alternative use of the goods, find new customers and distributions of the goods.²³¹ Also, this test is criticised as restricting the availability of avoidance.²³² Additionally, Huber raises the question of whether selling goods with a lower quality destroys the buyer's business reputation.²³³ All these concerns are reasonable and acceptable on the ground that searching for reasonable use of the goods in question limits avoidance to cases in which those goods have totally perished. Although keeping the contract alive is the main aim under the CISG, this must be balanced against binding the buyer to the contract strictly when the trust between the parties is destroyed, or there is a risk that the contractual requirements of the sub-sellers will not be met, or the goods delivered to the buyer can destroy the buyer's brand image. Especially when third-party IPRs are in question, the brand image and the buyer's reputation in the market have great significance.

²²⁶ Huber, 'Article 49' (n 202) 728.

²²⁷ *Oberlandesgericht Frankfurt am Main* (n 193). The court decided that there is a fundamental breach on the ground 'trustworthiness of the seller was harmed'.

²²⁸ Huber, 'Article 49' (n 202) 728.

²²⁹ *Ibid* 732; Schroeter (n 186) 449.

²³⁰ *Cobalt sulphate case* (n 5). The court rejected the buyer's request to avoid the contract by stating 'The [buyer] did not show that it would have been more difficult, possible only at lower prices, or completely impossible to sell the goods in other countries.' *Oberlandesgericht Frankfurt am Main* (Germany) 18 January 1994 (UNILEX), *Oberlandesgericht Stuttgart* (Germany) 12 March 2001 (PACE); *Schweizerisches Bundesgericht* (Switzerland) 28 October 1998 (PACE).

²³¹ Schroeter (n 186) 450.

²³² Huber, 'Article 49' (n 202) 734; Huber/Mullis (n 19) 231.

²³³ Huber, 'Article 49' (n 202) 734.

4.5.2.2. Article 49(1)(b)

In cases of non-delivery, when there is a failure to perform the obligation within the additional time fixed by the buyer, the buyer may declare the contract avoided under Article 49(1)(b). Although avoidance on the ground of breach of Article 42 is covered by Article 49(1)(a), if it is clear before the delivery of the goods that the seller will commit a fundamental breach, the buyer may fix an additional time for delivery of the goods free from third-party IPRs. If the seller fails to meet the buyer's request within the specified period, avoidance based on Article 49(1)(b) is possible.

4.5.2.3. Declaration of Avoidance and Time Limit

1. Declaration of Avoidance

The CISG does not provide an automatic or *ipso facto* avoidance even if the breach is fundamental or the additional time fixed for the performance has expired.²³⁴ If *ipso facto* avoidance is acknowledged under the CISG, it would create uncertainty for the parties regarding the status of the contract.²³⁵ Therefore, Article 26 requires that 'a declaration of avoidance of the contract be effective only if made by notice to the other party'.

There are no specific formal requirements regarding the form of the notice, either by Article 26 or the CISG. The notice can be declared orally,²³⁶ or in writing, expressly or even impliedly.²³⁷ Regarding Article 27, any appropriate means of transmission of the notice is acceptable, including e-mail or telephonic notice.²³⁸ Declaration of avoidance is also subjected to Article 27, which states that when there is 'a delay or error in the transmission of the communication or its failure to arrive'. According to Article 27, within the indicated situations the buyer will not lose his 'right to rely on the communication.'

Also, there is no need to include the word 'avoidance' in the notice as long as it is clear that the breaching party's performance is no longer expected by the buyer.²³⁹ Whether the

²³⁴ See Honnold, *Uniform Law* (n 15) 283; Date-Bah, 'Article 26' in Bianca/Bonnel (n 53) 223.

²³⁵ UNCITRAL Digest 2016 (n 74) 118 note 2.

²³⁶ See Secretariat Commentary, 'Article [26]' *Official Records* (n 23) note 4; *Oberster Gerichtshof* (Austria) 6 February 1996 (CLOUT no. 176).

²³⁷ Christiana Fountoulakis, 'Article 26' in Schwenger (n 11) 463; Andrea Björklund, 'Article 26' in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 355; Christopher M. Jacobs, 'Notice of Avoidance under the CISG: A Practical Examination of Substance and Form Considerations, the Validity of Implicit Notice, and the Question of Revocability' (2002) 64 U. Pitt. L. Rev. 407,413; *ICC Court of Arbitration* Case No. 9978 of March 1999 (UNILEX); *Corte di Appello di Milano* (Italy) 20 March 1998 (PACE). The court stated that 'the cancellation of the purchase order is equivalent to a notice of avoidance under CISG article 26'.

²³⁸ See Secretariat Commentary, 'Article [26]' (n 236) note 4; Franco Ferrari, 'Brief Remarks on Electronic Contracting and the United Nations Convention on Contracts for the International Sale of Goods (CISG)' (2002) 6 *Vindobona J. Intl'L Com. L. & Arb.* 289; *Court d'Appel de Rennes* (France) 27 May 2008 (PACE).

²³⁹ Björklund, 'Article 26' (n 237) 353; Fountoulakis, 'Article 26' (n 237) 463-465; *Oberlandesgericht Köln* (Germany) 14 October 2002 (PACE); *Rechtbank van Koophandel Kortrijk* (Belgium) 4 June 2004 (PACE). The court stated that: 'When in this letter it is stated that ["the glass is full" / "enough is enough"], the repayment of

notification made clearly can be understood by questioning ‘what a reasonable person would have understood in those same circumstances.’²⁴⁰

2. Time Limits to Avoidance

Article 49(2) sets time limits for the declaration of avoidance. Hence, the buyer loses his right to declare the contract avoided unless he acts within a reasonable time. The aim behind this limitation is to prevent any ‘abuse by the party considering avoidance: they may speculate on the price in a volatile market or cause unnecessary expense’.²⁴¹

49(2)(a) determines the time period for the late delivery and (2)(b) is for ‘any breach other than late delivery’. Since the breach of Article 42 falls within the scope of ‘any breach other than late delivery’, the focus here is on 49(2)(b).

‘Knew or ought to have known’

According to Article 49(2)(b)(i), the buyer must act within a reasonable time after he ‘knew or ought to have known of the breach’. By the ‘knew’, the buyer’s ‘positive knowledge’ should be understood.²⁴² The phrase ‘ought to have known’ is interpreted as ‘negligent ignorance’.²⁴³

In the case of third-party IPRs, Article 43 imposes a duty to notify the seller, which employs the same wording as 49(2)(b)(i), and failure to give notice causes loss of the buyer’s right to rely on Article 42.²⁴⁴ If the buyer loses his right to rely on Article 42, it is acknowledged that his right to avoid the contract based on the breach of Article 42 will also be lost.²⁴⁵ Whereas, if the seller knew of the claim, whether or not the reasonable time expired for the notification does not affect the buyer’s right either under Article 42 or Article 49.²⁴⁶ As Will explains: ‘Article 43(2) being *lex specialis*, Article 49(2)(b) no longer applies under the circumstances; it would be absurd to relieve the non-disclosing seller only in fundamental breach situations.’²⁴⁷

the purchase price and the transport costs was asked and restitution of the wrong truck delivered was required; this can only indicate that the avoidance of the initial contract by the sender of such a letter has been confirmed.’

²⁴⁰ Björklund, ‘Article 26’ (n 237) 354.

²⁴¹ Alejandro Osuna, ‘Dealing with Avoidance and its Consequences: Articles 49(2), 64(2) and 81 through 88’ in H.Flechtner, R.Brand and M.Walter (eds), *Drafting Contracts under the CISG* (OUP 2008) 481, 486. Also See Honnold, *Uniform Law* (n 15) 330.

²⁴² Huber, ‘Article 49’ (n 202) 742.

²⁴³ Ibid 742; Müller-Chen, ‘Article 49’ in Schwenzer (n 11) 793; Honnold, *Uniform Law* (n 15) 330.

²⁴⁴ See ‘3.2.2.3.Notice Requirement.’

²⁴⁵ Will, ‘Article 49’ (n 219) 366; Honnold, *Uniform Law* (n 15) 332; Anna Kazimierska, ‘The Remedy of Avoidance under the Vienna Convention on the International Sale of Goods’ *Pace Review of the Convention on Contracts for the International Sale of Goods (CISG) (1999-2000)* (Kluwer Law International 2001) 79, 126 <<http://www.cisg.law.pace.edu/cisg/biblio/kazimierska.html#199>> accessed 27 November 2018.

²⁴⁶ Ibid.

²⁴⁷ Will, ‘Article 49’(n 219) 366.

Another question arising is whether the notice given in accordance with Article 43 constitutes notice of declaration of avoidance. Given that declaration of avoidance is required by Article 26, it can be deduced that the notice of avoidance is different from the notice of third-party rights and claims. Also, it is suggested that the beginning of the time to give notice of avoidance is not the exact same time as under Article 43.²⁴⁸ In cases of non-conformity, Article 38 imposes a duty on the buyer to examine the goods; therefore the authors argue that the reasonable period for the buyer's knowledge should begin from the time of the performance of this obligation.²⁴⁹ However, it is acknowledged that for breaches other than non-conformity, the buyer is not bound to examine the goods.²⁵⁰

Expiration of the Additional Time Fixed by the Buyer

If the buyer fixed an additional time period under Article 47, after the expiration of this period, or if the seller declares that he will not perform within the additional time, the reasonable period for the declaration of avoidance begins. It should also be noted that Article 49(2)(b) assumes that the goods have been delivered already, and there is a fundamental breach if the buyer preferred performance and fixed an additional time.²⁵¹

Expiration of the Additional Time Fixed by the Seller

In the case that the seller declares his intention to cure the defect and fixes a time for performance under Article 48 before the buyer avoids the contract, but then fails to cure the defect within the time specified, the buyer can declare avoidance of the contract. Also, the time period begins when the buyer declares that he will not accept the performance.

4.5.2.4. The Effects of Avoidance

The effects of avoidance are addressed in Articles 81 to 84.

1. Release from the Obligations

Article 81 sets out the general rule according to which the 'primary' obligations of both parties are released by avoidance.²⁵² Nevertheless, the obligations regarding damages will not be affected. While any 'unperformed obligations' are not expected to be fulfilled when the

²⁴⁸ Müller-Chen, 'Article 49' (n 243) 792.

²⁴⁹ Ibid 793; Huber, 'Article 49' (n 202) 743.

²⁵⁰ Huber, 'Article 49' (n 202) 743. Also see '3.2.2.3. Notice Requirement.' This section explains while interpreting Article 43, there is no duty to examine the goods for IIP rights.

²⁵¹ Müller-Chen, 'Article 49' (n 243) 794; Huber/Mullis (n 19) 241.

²⁵² CISG Advisory Council Opinion, No.9, 'Consequences of Avoidance of the Contract' (2008), para 3.2., available at <<http://cisgw3.law.pace.edu/cisg/CISG-AC-op9.html#iv>> accessed 12 June 2017.

contract is avoided,²⁵³ any provisions covering ‘the settlement of disputes’ or ‘the rights and obligations of the parties consequent upon the avoidance of the contract remain in force’.²⁵⁴

2. Restitution

Article 81(2) requires that ‘A party who has performed the contract either wholly or in part may claim restitution from the other party of whatever the first party has supplied or paid under the contract.’ It is accepted that the avoidance ‘changes the contractual relationship into a winding-up or restitutionary relationship’;²⁵⁵ thus, new obligations are introduced by the article. Since there is no *ipso facto* restitution, the restitution must be claimed.²⁵⁶ In the case where both parties have performed their obligations, restitution will be made concurrently; otherwise, it will be unilateral.

In accordance with the restitution claim, each party must return what he received unless Article 82(2) is applicable. Regarding goods delivered, restitution means the redelivery of these goods; and delivery of similar goods or the payment of the value of the goods in money is not acceptable.²⁵⁷ Regarding monetary obligations, the price should be repaid in the currency of account and payment.²⁵⁸ Also, the breaching party (the seller in our case) is liable for the costs and expenses of the restitution.²⁵⁹

In terms of the place of restitution of the goods, no definite answer is provided by Article 81; nonetheless, the application of the general principles of the CISG, the articles for the place of delivery of the goods and the place of payment, is suggested to be employed.²⁶⁰ There are territories specified by Article 42; but as long as they are not determined as the place of the delivery, these territories do not carry such importance for restitution of the goods. If the delivery was made at ‘the State where the goods will be resold or otherwise used’, then these places should be considered as the place of redelivery.²⁶¹ It is generally asserted that redelivery

²⁵³ Christina Fountoulakis, ‘Article 81’ in Schwenger (n 11) 1169.

²⁵⁴ See Article 81(1); Secretariat Commentary, ‘Article [81]’ *Official Records* (n 23) note 6. The obligations presented as being remained unaffected by the avoidance is given as an example and not restricted those presented.

²⁵⁵ CISG Advisory Council Opinion, No.9 (n 252) para 3.7. See *Landgericht Düsseldorf* (Germany) 11 October 1995 (PACE).

²⁵⁶ Fountoulakis, ‘Article 81’ (n 253) 1174, Michael Bridge, ‘Article 81’ in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 1112.

²⁵⁷ *Ibid.*

²⁵⁸ CISG Advisory Council Opinion, No.9 (n 252) para. 3.8.

²⁵⁹ See Secretariat Commentary, ‘Article [81]’ (n 254) note 11.

²⁶⁰ CISG Advisory Council Opinion, No.9 (n 252) para. 3.12. See Michael Bridge, ‘The Nature and Consequences of Avoidance of the Contract Under the United Nations Convention on the International Sale of Goods’ (2008-2009) 10 ILRWU 118, 122.

²⁶¹ CISG Advisory Council Opinion, No.9 (n 252) para. 3.13

at the buyer's place of business, or the place where the goods are located restricts the cost and expenses of the restitution.²⁶²

There is also no reference to the time for the restitution; hence, by virtue of the general rules of the CISG, restitution must be performed within a reasonable time which should be determined based on 'the nature of the goods, their size, the geographical distance, and other relevant circumstances'.²⁶³

Exceptions

The restitution of the goods has significant importance for the buyer's right to avoid the contract, as according to Article 82(1), the buyer loses his right 'if it is impossible for him to make restitution of the goods substantially in the condition in which it received them'.²⁶⁴ Article 82(2) sets out three exceptions under which the buyer does not lose his right to avoid.

According to Article 82(2)(a), in case the impossibility of making restitution of the goods is not due to the buyer's 'act or omission', the buyer's right of avoidance remains. It is generally accepted that *force majeure* cases,²⁶⁵ the seller's breach of contract, or seizure of the goods are not within the sphere of the buyer's 'act or omission'.²⁶⁶ Even though these cases exclude the need for the buyer to make restitution, whether the buyer's conduct gives rise to or enhances the situation requires to be ascertained.²⁶⁷ Concerning goods subject to third-party IPRs, it is highly likely that restitution of the goods may not be possible either, due to the seizure of the goods on behalf of the third-party.²⁶⁸

If restitution is not possible due to the goods having perished or deteriorated as a result of the examination provided in Article 38, the buyer is exempted from restitution according to Article 82(2)(b).²⁶⁹ Also based on Article 82(2)(c), the use or sale of the goods in the normal course

²⁶² See CISG Advisory Council Opinion, No.9 (n 252) para. 3.12, Bridge, 'The Nature and Consequences of Avoidance' (n 260)122. Cf. see Fountoulakis, 'Article 81' (n 253) 1179-1180. Fountoulakis argues that determination of the buyer's place of business as a place for redelivery may mean 'punishing' of the breaching party.

²⁶³ Fountoulakis, 'Article 81' (n 253) 1181; Michael Bridge, 'Article 81' (n 256) 1121.

²⁶⁴ For a detailed analysis on when it is impossible to make a restitution see Michael Bridge, 'Article 82' in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 1125, Christina Fountoulakis, 'Article 82' in Schwenzer (n 11) 1184; UNCITRAL, *Digest of Case Law on the United Nations Convention on Contracts for the International Sale of Goods* (2008 Edition) 273.

²⁶⁵ *Gerechthof 's-Gravenhage* (Netherlands) 23 April 2003 (PACE). The quality of the bread did not meet the buyer's countries requirements, thus it was confiscated. Although, the restitution was not possible, avoidance by the buyer was available.

²⁶⁶ Fountoulakis, 'Article 82' (n 264) 1189; Bridge, 'Article 82' (n 264) 1134; Tallon, 'Article 82' in Bianca/Bonnell (n 53) 608.

²⁶⁷ Schlechtriem/Butler (n 37) 229; See Fountoulakis, 'Article 82' (n 264) 1189-1190; Bridge 'Article 82' (n 264) 1135.

²⁶⁸ See *Eximin v Textile and Footwear Supreme Court of Israel* 22 August 1993 (PACE).

²⁶⁹ Fountoulakis, 'Article 82' (n 264) 1191; Bridge, 'Article 82' (n 264) 1136; Tallon (n 266) 608.

of his business before the lack of conformity is discovered or ought to have been discovered does not prevent the buyer from avoiding the contract.²⁷⁰ Resale must be in the ‘normal course of business’ and ‘reasonable from an economic point of view’.²⁷¹ A German court decided that delivery of the goods to the sub-buyers not constitute a resale in the normal course of business.²⁷² However, the normal course of business should refer to the buyer’s regular and reasonable trade activities. Where the seller knows that the buyer bought the goods with the aim of reselling them, such a limited interpretation of the subparagraph should not be accepted. In terms of Article 42, while the seller’s liability explicitly covers the states where the goods are used or resold, and the liability extends to the sub-buyers,²⁷³ it can be unfair to reject the restitution exception under Article 82(2)(c) based on the person to whom or place at which delivery is made.

3. Equalisation of Benefits

Article 84 is regarded as ‘a necessary component’ of the restitution, and the rationale behind it is to put the parties in the same economic position in which they were before their contractual performances.²⁷⁴ This article applies to full and partial avoidance of the contract by the buyer.²⁷⁵

According to Article 84(1), if the contract is avoided, the seller is under the duty to pay the purchase price along with interest on it from the date on which the price was paid. Whether or not the seller earned any interest on the price he received is unimportant; since the seller’s duty derives from ‘an irrebuttable presumption that the seller has invested the money in an interest-bearing account or has benefited from the money in some other way’.²⁷⁶ The interest rate in the seller’s country of business should be paid.²⁷⁷ Nevertheless, this payment of the interest should not be considered as interest arising from damages (Article 78),²⁷⁸ this only for the equalisation of benefits taking into account that the seller could have been invested money and earned some interest from it.²⁷⁹

²⁷⁰ Fountoulakis, ‘Article 82’ (n 264) 1191; Bridge, ‘Article 82’ (n 264) 1136; Enderlein/Maskow (n 39) 346.

²⁷¹ Fountoulakis, ‘Article 82’ (n 264) 1193.

²⁷² *Oberlandesgericht Stuttgart* (n 230). For criticism see Bridge, ‘Article 82’ (n 264) 1136.

²⁷³ See Chapter 3 ‘3.2.2.2. Liability- 3. Territorial Limitations’

²⁷⁴ Christina Fountoulakis, ‘Article 84’ in Schwenger (n 11) 1202-1203.

²⁷⁵ *Ibid* 1203.

²⁷⁶ CISG Advisory Council Opinion, No.9 (n 252) para. 3.25.

²⁷⁷ *Ibid*; Fountoulakis, ‘Article 84’ (n 274) 1206; Bridge, ‘The Nature and Consequences of Avoidance’ (n 260) 125.

²⁷⁸ Fountoulakis, ‘Article 84’ (n 274) 1205.

²⁷⁹ Bridge, ‘The Nature and Consequences of Avoidance’ (n 260) 125.

The buyer must give all benefits which he received from the goods according to Article 84(2). The buyer's duty arises even if it is impossible to make restitution of the goods wholly or partially or impossible to make restitution 'substantially in the condition which he received them' under Article 84(2)(b). However, the answers for what are these benefits and how can these benefits be calculated are unclear. As the buyer is required to give all the benefits derived from the goods such as 'the leasing of goods the sale of products of the goods (for example the sale of sheep wool or cow's milk), the grant of licences to third parties in return for remuneration, the grant of the right to copy or reproduce protected goods protected works, etc' can amount the benefits should be returned to the seller.²⁸⁰ Nonetheless, the benefits should also be net benefits, so, any cost or expenses incurred when using the goods can be deducted from the benefits.²⁸¹

4.5.3. Under the SGA

In English law, termination for breach of contract is available to the aggrieved party in limited circumstances. Either the consequences of the breach which carries a degree of seriousness or the nature of the term broken gives rise to the right to terminate the contract.²⁸² As explained in section 4.2.2 above, classification of the terms broken by the seller is of importance while deciding whether the buyer has a right to terminate the contract. This classification reflects, in principle, how fundamental the term is to the contract: a condition goes to the root of the contract, whereas a warranty is a less important term.

The SGA s11(3) contains the statement that 'whether a stipulation in a contract of sale is a condition, the breach of which may give rise to a right to treat the contract as repudiated'. There are terms which are expressly classified as a condition by the statute. The SGA acknowledges that implied terms about the title to sell, correspondence by description, satisfactory quality, fitness for purpose, and correspondence with the sample are conditions. In addition to such express classification, the courts can decide whether the contract term is a condition. Blackburn J. in *Bettini v Gye* stated that '[...] whether the particular stipulation goes to the root of the matter, so that failure to perform it would render the performance of the rest of the contract a thing different in substance from what the defendant had stipulated for.'²⁸³ It is also possible that the parties can determine which of the contractual terms is to be treated as a condition.²⁸⁴ The breach of a condition gives the buyer the right to treat the contract as repudiated regardless

²⁸⁰ Fountoulakis, 'Article 84' (n 274) 1208.

²⁸¹ Ibid 1209.

²⁸² Bridge, *The Sale of Goods* (n 45) 509-510.

²⁸³ (1876) 1 QBD 183 at 188.

²⁸⁴ Simon Whittaker, 'Termination Clauses' in Andrew Burrows and Edwin Peel (eds) *Contract Terms* (OUP 2007); Bridge, *The Sale of Goods* (n 45) 510-525; Rowan (n 106) 72.

of its consequences which might be serious or slight. Nevertheless, there is a limitation on the right to terminate imposed by s15A which will be examined below.

When it comes to terms which are not expressly classified by statute, English law has developed several ways in which it has limited the ability of the aggrieved party to terminate the contract for breach of a condition. Firstly, it has developed the concept of innominate terms so that the courts are not forced to choose between classifying the term as either a condition or a warranty. When an innominate term is breached, the aggrieved party's right to terminate the contract depends on whether the consequences of the breach are 'so fundamental as to undermine the whole contract'.²⁸⁵ Classifying the term as innominate therefore limits the ability of the power of the buyer to terminate the contract for the breach in order to escape the contract for purely commercial reasons such as a change in the market price. In the case which introduced the category of innominate terms in the English law, a 'seaworthiness' requirement was deemed neither a condition nor a warranty, but an innominate term, and a test was developed for deciding whether the breach of such a term would give rise to a right to terminate the contract. According to this test, it will depend on whether the breach results in a substantial deprivation of the whole benefit which the parties intended to confer on the aggrieved party.²⁸⁶ On the basis of this test, only a breach that causes serious consequences, or, in other words, a fundamental breach, entitles the buyer to terminate the contract.

It is not always clear whether a term is a condition or innominate term. Although the effect is given to the parties' intentions when determining the true nature of the term, their intentions are not always clear, and therefore it is necessary for the court to consider whether the term is a matter of the foundation of the contract.²⁸⁷ This power to classify a term as an innominate term rather than a condition, therefore, gives the courts considerable power to limit the scope for terminating a contract because of the breach.

In addition to this, the courts' general power to interpret contract terms enables them to refuse to treat a term as a condition contrary to the parties designation of it as a condition. In *Schuler AG v Wickman Machine Tool Sales Ltd*,²⁸⁸ the parties described in their agreement that Clause

²⁸⁵ See Treitel, *Some Landmarks* (n 48) 110; *Hong Kong Fir Shipping* (n 46) 57. It was stated that: 'If what is done or not done in breach of the contractual obligation does not make the performance a totally different performance of the contract from that intended by the parties, it is not so fundamental as to undermine the whole contract.'

²⁸⁶ *Hong Kong Fir Shipping* (n 46), Diplock L.J. p 66, 72. See, J. W. Carter, G. J. Tolhurst, and Elisabeth Peden, 'Developing the Intermediate Term Concept' [2006] *Journal of Contract Law* 268; Lord Devlin, 'The Treatment of Breach of Contract' [1966] *The Cambridge Law Journal* 192; *Benjamin's Sale of Goods* (n 45) paras 10-033 - 10-038.

²⁸⁷ Koji Takahashi, 'Right to Terminate (Avoid) International Sales of Commodities' [2003] *Journal of Business Law* 102.

²⁸⁸ *Schuler AG* (n 45).

7(b) of the contract ‘shall be [a] condition of this agreement that’ requires Wickman to make visits to the six company. After the failure of a few visits, Schuler claimed to use his right to terminate the contract based on the term was designated as a condition in their contracts. However, the court decides to interpret the clause within the content of the whole agreement.²⁸⁹ So, whether clause 7(b) constituted a fundamental condition was questioned, and it was consequently held that such ‘construction leads to a very unreasonable result must be a relevant consideration.’²⁹⁰

Also, there is a limitation brought in by s15A SGA on terminating a sales contract even for the slight breaches. This section aims ‘to prevent what are completely technical rejections in commercial contracts, which may be motivated by caprice or (more likely) adverse movements in the market which lead a buyer to seek escape from a contract.’²⁹¹ For example, the avoidance of the contract with the aim of purchasing the substituted goods which can be found at a lower price in the market can be restricted by the application of s15A.

According to this section, when the contract is for non-consumer sales, and the buyer has a right to reject the goods for the breach of conditions under sections 13-15, if ‘the breach is so slight that it would be unreasonable for him to reject them’, the breach ‘may be treated as a breach of warranty.’ Thus, in this instance, only the remedies for breach of warranty is available. This limitation for the slight breaches is designed to avoid the detrimental effects of the termination of the contract by a buyer who acts in bad faith.²⁹² Nevertheless, because s12(1) is not within the scope of this limitation, the right of termination arising from third-party IPRs is enjoyed without the need for further examination of the quality of the breach.

From the point of the third-party IPR issues, it is important to note that of the two provisions governing the seller’s liability, s12(1) and s12(2), only s12(1) is classified as a condition by the SGA. Hence the buyer can terminate the contract only when the seller breaches s12(1); since s12(2) is classified as a warranty, its breach only gives rise to a claim for damages. Regarding the limitation under s15A, this section only applies to s13, s14 and s15, since implied term under s12(1) is not within the scope of this limitation. Therefore, the termination of the contract can be applied to breach of s12(1) regardless of the consequences of the breach.

²⁸⁹ *Schuler AG* (n 45) at 265.

²⁹⁰ *Ibid.*

²⁹¹ Benjamin’s Sale of Goods (n 45) 12-026.

²⁹² McKendrick, Sale of Goods (n 127) 10.25.

4.5.3.1. Declaration of Avoidance

A breach which entitles the buyer to terminate the contract does not bring about this result automatically, as it merely gives the buyer a choice to terminate or keep alive the contract.²⁹³ There is no requirement to obtain a court order to terminate the contract. In that regard, termination is a self-help remedy.²⁹⁴ The buyer can exercise the termination by notifying the seller of his intention to terminate the contract.²⁹⁵

The notice must be clear regarding termination and must not contain any terms suggesting that the contract will be performed at some point.²⁹⁶ Mere silence on the issue will not be regarded as communicating the intention to terminate.²⁹⁷ The rejection of the goods is seen as a way of examining the right to terminate; nonetheless, even the termination gives rise right to reject, 'it does not logically follow that a buyer entitled to reject the goods is thereby entitled to or does terminate the contract.'²⁹⁸

4.5.3.2. The Effects of Termination

Termination discharges the unperformed primary obligations of both parties, as well as 'their primary right to demand performance.'²⁹⁹ After termination, the buyer is discharged from further performance of his duties, such as accepting the goods or paying the price, while the obligations that the seller had failed to perform become obligations to pay damages.³⁰⁰ The seller's obligations to pay damages arising from 'both breaches committed before termination and to losses suffered by the injured party as a result of the non-performance of future obligations brought about by termination'.³⁰¹ The obligations concerned with dispute resolutions also remain after the termination.³⁰² The effect of the termination is prospective and therefore only affects the unperformed obligations. Nevertheless, a limited retrospective effect is accepted on the ground that the obligations performed before termination can be recovered.³⁰³

²⁹³ *Treitel The Law of Contract* (n 183) 955, *Heyman v Darwins Ltd* [1942] AC 356 at 361, *Imperial Smelting Corp Ltd v Joseph Constantine Steamship Line Ltd* [1942] AC 154 at 187-188

²⁹⁴ *Bradgate* (n 44) 112; *Rowan* (n 106) 78-79.

²⁹⁵ *Martin-Baker Aircraft Co v Canadian Flight Equipment* [1955] 2 QB 556. Also, the notice has to be clear on the termination and does not contain any terms that the contract will be performed at some point. On this account see *Leofelis SA v Lonsdale Sports Ltd* [2008] ETMR 63.

²⁹⁶ *Leofelis SA* (n 295).

²⁹⁷ *Benjamin's Sale of Goods* (n 45) 12-027.

²⁹⁸ *Bridge, The Sale of Goods* (n 45) 532.

²⁹⁹ *Goode on Commercial Law* (n 112) 136.

³⁰⁰ *Bridge, The Sale of Goods* (n 45) 510-511; *Treitel The Law of Contract* (n 183) 963-964.

³⁰¹ *Ibid.*

³⁰² *Treitel The Law of Contract* (n 183) 965.

³⁰³ *Ibid* 963.

1. Rejection of the Goods

While available remedies for the breach of condition and warranty are defined under s11(3), in terms of the warranties, it stated that ‘the breach of which may give rise to a claim for damages but not to a right to reject the goods.’ From this wording, it can be assumed that the breach of condition gives rise the rejection of goods.

Although the SGA is not providing what constitutes a rejection or how it should be processed, by virtue of case law a clear notice stating that the buyer will not accept the goods and that they are at the seller’s risk is required.³⁰⁴ The rejection must be unequivocal;³⁰⁵ thus, the acts of the buyer should not be inconsistent with rejection.³⁰⁶ Also, the rejection must take place within a reasonable time, which depends on the interests of the parties.³⁰⁷

In case of a rejection, by s36(1) the buyer ‘is not bound to return them to the seller, but it is sufficient if he intimates to the seller that he refuses to accept them’. In *Heilbutt v Hickson*,³⁰⁸ it was stated that where the buyer rejects the goods, the buyer ‘throw[s] them upon the defendants’ hands’,³⁰⁹ and ‘he must at least reject at the place where the vendor was bound to deliver’.³¹⁰ Thus, ‘the goods therefore continue or become the property, and as such become at the risk and expense, of the seller’.³¹¹ By the rejection of the goods, the property in the goods reverts in the seller.³¹²

There are some grounds on which the buyer loses his right to reject the goods, and which also result in loss of the right to terminate the contract. According to s 11(2), the buyer may either ‘waive the condition’ or ‘elect to treat the breach of the condition as a breach of warranty’. There are two forms of waiver which cause different results. In the case of a total waiver, the buyer elects to continue the contract, and neither uses his right to reject the goods nor claims for damages, which means that he does not treat the contract as repudiated.³¹³ On the other hand, the word ‘elect’ within s11(2) ‘refers to affirmation in the sense of election, i.e. to the buyer’s abandonment of the right to terminate while keeping alive his right to damages.’³¹⁴

³⁰⁴ *Grimoldby v Wells* (1875) LR 10 CP 391.

³⁰⁵ *Atari Corporation (U.K.) Ltd. v Electronics Boutique Stores (U.K.) Ltd* [1998] Q.B. 639.

³⁰⁶ *Graanhandel T Link BV European Grain & Shipping Ltd* [1989] 2 Lloyd’s Rep 531.

³⁰⁷ *Truk (UK) Ltd v Tokmakidis GmbH* [2000] 2 All ER (Comm) 594, 602.

³⁰⁸ (1872) LR 7 CP 438.

³⁰⁹ *Ibid.* at 440.

³¹⁰ *Ibid.* at 443. See *Benjamin’s Sale of Goods* (n 45) 12-067. Benjamin regards this ‘a rule which may cause hardship to the seller.’

³¹¹ *Benjamin’s Sale of Goods* (n 45) 12-067.

³¹² *Whitecap Leisure Ltd v John H Rundle Ltd* [2008] C.P. Rep. 31.

³¹³ *Treitel The Law of Contract* (n 183) 1012.

³¹⁴ *Ibid* 1013; See *Benjamin’s Sale of Goods* (n 45) 12-039.

Section 11(4), subject to s35A, limits the buyer's right to reject the goods and his right to treat the contract as repudiated under a non-severable contract when he accepts the goods or part of them. Section 35(2) associates acceptance with the examination of the goods;³¹⁵ thus, the buyer 'is not deemed to have accepted' the goods under s35(1) 'until he has had a reasonable opportunity of examining' their conformity with the contract, or sample. Also under s35(4), acceptance is deemed based on 'the lapse of a reasonable time', after which retaining of the goods by the buyer 'without intimating to the seller that he has rejected them'. These limitations on the right to reject have particular relevance for breach of s12 because the buyer might discover the breach only after a time has passed which means he is deemed to have accepted the goods. Whether s35 is applicable to cases arising after the delivery has been made is questioned.³¹⁶ In *Rowland v Divall*,³¹⁷ the court held that the limitation of the right to reject acceptance of the goods 'has no application to a breach of that particular condition'.³¹⁸ Most authors acknowledged this approach.³¹⁹

2. Restitution

The buyer who rejects the goods and terminates the contract he can claim damages which 'will take into account, and may include, any part of the price paid.'³²⁰ Alternatively, the buyer can recover the price after the rejection on the ground of 'total failure of consideration.'³²¹ This rule is provided under s54 which reads 'Nothing in this Act affects the right of the buyer or the seller to recover interest or special damages in any case where by law interest or special damages may be recoverable or to recover money paid where the consideration for the payment of it has failed.' It is believed that the claim for restitution is 'advantageous' compared to the claim for damages, which imposes on the buyer the need to prove and to mitigate the loss.³²² Unless there is a total failure of consideration, however, the buyer may be unable to recover the money he paid.³²³ Devlin J in *Kwei Tek Chao v British Traders and Shippers Ltd* held that:

if goods have been properly rejected, and the price has already been paid in advance, the proper way of recovering the money back is by an action for money paid for a

³¹⁵ The buyer's right to examine is laid under s34. For a detailed analysis of the right see Bridge, *The Sale of Goods* (n 45) 534-537; *Benjamin's Sale of Goods* (n 45) 12-041.

³¹⁶ See *Benjamin's Sale of Goods* (n 45) 12-048; Bridge, *The Sale of Goods* (n 45) 538.

³¹⁷ [1923] 2 KB 500.

³¹⁸ *Ibid.* at 507.

³¹⁹ See Bridge, *The Sale of Goods* (n 45) 538; *Benjamin's Sale of Goods* (n 45) 4-009 and 12-048; Cf. E.P. Ellinger, 'Buyer's Remedies When Seller Does Not Have the Right to Sell the Goods' (1968) 5 Victoria U. Wellington L. Rev. 168.

³²⁰ *Benjamin's Sale of Goods* (n 45) 12-069.

³²¹ *Ibid.*

³²² Simon Whittaker, *Liability for Products: English Law, French Law, and European Harmonization* (OUP 2005); *Benjamin's Sale of Goods* (n 45) 12-069. He states that 'such a claim may be simpler than a claim for damages.'

³²³ Law Commission, *Sale and Supply of Goods Report* (n 51) note 2.33.

consideration which has wholly failed, i.e., money had and received; but that form of action is governed by exactly the same rules with regard to affirming or avoiding the transaction as in any other case.³²⁴

The buyer needs to return the goods when he claims the money paid previously based on a total failure of consideration. However, if the buyer's inability to return the goods is a result of a loss or damage occurred due to 'the very breach of which the buyer complains', the buyer is not required to return the goods.³²⁵ In the *Azzurri* case,³²⁶ the seller had no right to sell the goods, which carried third-party IPRs; and thus, the goods were rejected by the buyer. The buyer was not able to return the goods because he delivered the goods to the IPR holder upon the latter's request. Despite the fact that the buyer had delivered the goods because the IPR holder's threat of proceedings and compensation the court did not treat the buyer's claim as one for a refund, stating that: 'but on the facts its claim analysed simply as damages for breach of contract produces the same result as it would do if analysed as a claim for a refund plus damages for the excess paid to Westcon'.³²⁷

It is also problematic to recover the money even when the goods can be returned to the seller if the buyer gains a benefit from it.³²⁸ According to Bridge, the reason behind this can be that 'at one time it was thought that a quasi-contractual action for money had and received on a total failure of consideration could not be brought until the plaintiff had rescinded the contract *ab initio*'.³²⁹ In *Hunt v Silk*,³³⁰ the court rejected the claim for money paid on the ground that the plaintiff's occupation of the possession 'beyond the time when the repairs were to have been done and the lease executed' did not constitute a total failure of consideration.³³¹ In contrast to this view, which prevents the recovery of the money paid if the buyer receives any benefit, a different approach is taken when the benefit received differs from the one bargained for; in this case existence of total failure of consideration is accepted.³³² In light of this, whether the buyer can claim the money paid previously based on the breach of s12, even if he benefited from the goods, is significant.

³²⁴ [1954] 2 QB 459 at 475.

³²⁵ *Benjamin's Sale of Goods* (n 45) 12-070, and 12-059; *Treitel The Law of Contract* (n 183) 1269.

³²⁶ *Azzurri* (n 119).

³²⁷ *Ibid.* note 82.

³²⁸ *Benjamin's Sale of Goods* (n 45) 12-070; *Treitel The Law of Contract* (n 183) 1270.

³²⁹ Michael Bridge, 'Discharge for Breach of the Contract of Sale of Goods' (1982) 28 MLJ 867, 888.

³³⁰ (1804) 5 East 449.

³³¹ *Ibid* at 453.

³³² *Treitel The Law of Contract* (n 183) 1270; See *Rowland v Divall* (n 317); *South West Water Services Ltd v International Computers Ltd* [1999] B.L.R. 420

4.5.4. Comparison

When the relevant rules of the CISG and the SGA are examined, it can be seen that the buyer cannot be terminate the contract for the slight breaches. The CISG sets a high threshold for the avoidance of the contract by requiring that the breach should be a ‘fundamental’ one. Considering the CISG emphasises the preservation of the contract; thus, avoidance is considered to be ‘the hardest sword that a party to a sales contract can draw if the other party has breached the contract’.³³³ Given that, to be able to avoid the contract, there must be a fundamental breach which requires a high level of seriousness for the result of the breach. Also, the SGA restricts the termination of the contract when ‘the breach is so slight that it would be unreasonable to reject them.’

The CISG requires that the breach must be fundamental which ‘results in such detriment to the other party as substantially to deprive him of what he is entitled to expect under the contract.’ Therefore, ‘the nature of the breach’ is of significance to decide upon whether the buyer has a right to avoid.³³⁴ Under the SGA, the buyer’s right to terminate is examined according to the term which is breached, or the consequences of the breach. Therefore, if the seller breaches a condition which is regarded as the backbone of the contract,³³⁵ or the breach goes to the root of the contract,³³⁶ the buyer can exercise his right to terminate the contract.

The seller’s liability arising from third-party IPRs is found under s12(1) and 12(2). Regarding that the s12(1) is a condition, the breach of this is not subjected to the limitation under s15A whose wording covers sections 13,14 and 15. There is no need for the buyer to prove the seriousness of the breach of s12(1); however, it needs to be examined whether the breach of Article 42 under the CISG constitutes a fundamental breach. The CISG’s fundamental breach approach, which has been criticised as being vague and failing to establish a coherent rule to be applied easily,³³⁷ there is no clear or straightforward answer whether the breach of Article 42 is a fundamental one. Even though this thesis provides some situations raised under Article 42 can be accepted as fundamental, the availability of avoidance is assessed based on such criteria contractual agreement, the seriousness of the breach, or reasonable use test.³³⁸ On the other hand, there is no unclarity in terms of the availability of termination for the buyer when

³³³ Ulrich Magnus, ‘The Remedy of Avoidance of Contract under CISG -- General Remarks and Special Cases’ (2005-2006) 25 JL & Com 423.

³³⁴ Agapiou (n 107)164.

³³⁵ Bridge, *The Sale of Goods* (n 45) 510-525; *Benjamin’s Sale of Goods* (n 45) para10-026, See *The Hansa Nord* (n 45); *Schuler AG* (n 45).

³³⁶ Bridge, *The Sale of Goods* (n 45) 509

³³⁷ See Björklund, ‘Article 25’(n 187) 337; Schroeter (n 186) 421, Koch (n 187) 183.

³³⁸ See ‘4.5.2.1./2. Establishing Fundamental Breach’.

the seller breaches his duty under s12(1). That regard, while it is hard to claim the avoidance of the contract under the CISG when third-party IPRs arises, under the SGA it is apparent that the buyer can terminate the contract in case of IPRs issues and it seems more frequent to terminate the contract rather the CISG.

Both legal instruments do not establish an automatic avoidance process but require the buyer to make a declaration of a clear intention to end the contract. It is upon the parties' intent on whether to continue the contract even the existence of the ground for avoidance or to avoid the contract. In terms of the declaration of the parties intent to avoid the contract, the CISG requires giving notice to the seller according to Article 26, whereas the SGA requires 'a positive act' for indication the buyer's intention to terminate the contract.³³⁹

Under the CISG and the SGA, the restitution is available for the buyer after he avoids or terminates the contract. The parties are released from their unperformed primary obligations, whereas the obligations concerning dispute resolution survive in both instruments. Therefore, avoidance/termination has a prospective effect.³⁴⁰ Similarly, both the CISG and the SGA acknowledge that the seller's obligation to pay damages continues.

There is a significant difference between the CISG and the SGA regarding the restitution rules. The CISG compels the parties to return any goods they have received under the contract. In particular, the failure to return the goods in 'substantially in the condition in which it received them' causes loss of the right to avoid the contract.³⁴¹ Although there are exceptions to this requirement which are applicable when third-party IPRs exist when a situation does not give rise to these exclusions, and the buyer becomes liable to return the goods, the obligation of redelivery is seen as a burden. Unlike the CISG, the buyer is not obliged to return the goods under the SGA, under s36(1) it is established that the buyer 'is not bound to return them to the seller, but it is sufficient if he intimates to the seller that he refuses to accept them.' The approach taken by the SGA can be preferable, especially when the buyer and the seller are in different countries. Under the CISG, either the place of delivery or the buyer's place of business are chosen as the place for restitution of the goods.

The other difference between the CISG and the SGA concerns restitution of the price paid. Under the SGA, the buyer is not always entitled to recover the money paid previously; there must be a total failure of consideration. The buyer's right to recover the money is restricted if

³³⁹ *Benjamin's Sale of Goods* (n 45) 12-027.

³⁴⁰ *Treitel The Law of Contract* (n 183) 965; Bridge, *The Sale of Goods* (n 45) 511; Bridge, 'Article 81' (n 256) 1110; Fountoulakis, 'Article 81' (n 253) 1171.

³⁴¹ The CISG Article 82.

he benefited from the goods. The rule is not applied as strictly as it was before, because the courts investigate whether the benefit the buyer received is the one that he expected to receive as a result of the contract, or is different from the expected benefit. English law does not specifically refer to return of the benefit or interest, whereas the CISG requires the buyer to return all benefits he received under Article 84. Although the assessment of these interest poses some questions under the CISG, its clear indication of the buyer's duty to return all the benefits he acquired from the goods is a departure from English law. Because the CISG aims to put the parties in the position they had been in before the contract and it uses every possible means to reach this objective.

4.6. Damages

4.6.1. Introduction

Damages provides an important monetary relief to an injured party.³⁴² Their objective is to place the injured party in as a good position as he would have been in if the contract had been performed.³⁴³ The aim of this section is to examine what kind of losses are recoverable and to identify how these two legal instruments measure damages. This examination is conducted with special attention to losses arising from breach of the CISG Article 42 and the SGA s12(1) and s12(2).

4.6.2. Under the CISG

The CISG sets forth rules for damages between Articles 74 and 78, and each establishes a rule for a specific case. Article 74 provides a general rule for the measurement of damages, while Articles 75 and 76 are applicable when the contract is avoided depending on whether the buyer made a substitute transaction, Article 77 determines the duty to mitigate the loss and finally Article 78 concerns payment of interest on money. These articles are designed to be applied to whichever party breaches the contract; however, given the focus of the current research, the articles engaged below will be examined with reference to the damages available to the buyer when the seller breaches his duty under Article 42.

³⁴² J Stapleton, 'A new "Seascape" for Obligations: Reclassification on the Basis of Measure of Damages' in Peter Birks (ed), *The Classification of Obligations* (Clarendon Press 1997) 193.

³⁴³ Djakhongir Saidov and Ralph Cunnington, 'Current Themes in the Law of Contract Damages: Introductory Remarks' in Djakhongir Saidov and Ralph Cunnington (eds) *Contract Damages Domestic and International Perspectives* (Oxford and Portland 2008) 1.

4.6.2.1. General Rule for Damages

Article 74 determines the general rule for measuring damages, which it defines as consisting of ‘a sum equal to the loss, including loss of profit’. The wording of the article provides the requirements for claiming damages and the principles on which damages are based. It establishes that there must be a breach of contract, a loss suffered by the non-breaching party and a causal link between the breach and loss.³⁴⁴ Damages are available regardless of the seller’s fault, which means that the CISG applies to strict liability on the seller.³⁴⁵ While the seller’s fault is not required to provide entitlement to damages for a ‘breach of the duty under Article 42’, there must be a degree of negligence on the seller’s part, this is indicated by the inclusion of the phrase ‘he knew or could not have been unaware’ in Article 42.³⁴⁶

The protected interests of the aggrieved party play an important role when measuring the damages. The expectation interest can be defined as to put the injured party in as a good position in which he would have been had the contract been properly performed.³⁴⁷ Whereas, by the reliance interests, the aggrieved party has been placed in a good position than if the contract has not been made.³⁴⁸

Through its provisions, the CISG aims to ‘is to place the injured party in the same economic position he would have been in if the contract had been performed.’³⁴⁹ This objective affirms that the protected interest that Article 74 relates to is expectation interest in covering the loss of profit, it also aims to satisfy the reliance interests of the buyer.³⁵⁰

The principles of full compensation and foreseeability that are laid under Article 74 are described as ‘brief but powerful’.³⁵¹ The principle of full compensation means ‘to compensate an aggrieved party for all disadvantages suffered as a result of the breach’.³⁵² This principle establishes that ‘all possible kinds of losses’ are covered under Article 74.³⁵³ It should be noted that full compensation is limited to foreseeability and mitigation.

³⁴⁴ See Victor Knapp, ‘Article 74’ in Bianca/Bonell (eds) (n 56) 540; Butler (n 67) §8.02.

³⁴⁵ Unless the seller is exempted on the ground of Articles 79 and 80. John Gotanda, ‘Article 74’ in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 992.

³⁴⁶ See Chapter 3 ‘3.2.2.2./2. Seller’s Knowledge’.

³⁴⁷ Lon L. Fuller and William R. Perdue, ‘The Reliance Interest in Contract Damages: 1.’ (1936) 46 Yale LJ 52; Djakhongir Saidov, ‘Methods of Limiting Damages under the Vienna Convention on Contracts for the International Sale of Goods’ (2002) 14 Pace Int’l L. Rev. 307.

³⁴⁸ Ibid.

³⁴⁹ Secretariat Commentary, ‘Article [74]’ in *Official Records* (n 23) para 3.

³⁵⁰ Ingeborg Schwenzer, ‘Article 74’ in Schwenzer (n 11) 1058; Saidov, ‘Methods of Limiting Damages’ (n 347).

³⁵¹ Honnold, *Uniform Law* (n 15) 445.

³⁵² CISG Advisory Council Opinion No.6 ‘Calculation of Damages under CISG Article 74’ note 1.1.

<<http://www.cisg.law.pace.edu/cisg/CISG-AC-op6.html>> accessed 27 November 2018.

³⁵³ Saidov, ‘Methods of Limiting Damages’ (n 347) 314.

4.6.2.2. Types of Losses

On the basis that Article 74 establishes the rule aiming at ‘full compensation’, there is no definite illustration of the types of losses that are covered by damages under the CISG.³⁵⁴ The wording of the article provides for damages for ‘a sum equal to the loss, including loss of profit, suffered by the other party as a consequence of the breach’. In taking this wording into account, some observers suggest that the loss covered through the CISG is divided between ‘actual’ loss and loss of profit.³⁵⁵ Other authors are seeking to clarify the recoverable losses and propose a different classification.³⁵⁶ Although the authors do not accept a single classification, with the intention of illustrating the wide range of loss coherently, the classification adopted here is based on three types of losses: direct, incidental and consequential losses in addition to the loss of profit. Each type of loss is analysed below, and losses that may arise as a result of third-party IPRs over the goods are considered.

1. Direct Loss

As the term indicates, this type of loss arises as a ‘direct’ result of a breach. It is measured in accordance with ‘the difference between the value to the injured party of the performance that should have been received and the value to that party of what, if anything, actually was received’.³⁵⁷ If the contract is avoided, damages are measured based on Articles 75 and 76.³⁵⁸

The Secretariat Commentary establishes that the loss suffered as a result of delivery of defective goods might be measured in different ways. In instances where the defect is curable, ‘loss would often equal the cost of the repairs’.³⁵⁹ If it is available to remove IPRs over the goods, the goods subject to third-party IPRs can be acknowledged within the defective goods; hence any cost associated with these removal efforts can be covered by Article 74. As has been observed above under ‘specific performance’,³⁶⁰ third-party IPRs can be removed by obtaining the licence from the right owner. If the buyer himself reaches an agreement with the right holder, the license fees he paid are required to be recovered by the seller.

³⁵⁴ Saidov, ‘Methods of Limiting Damages’ (n 347) 314.

³⁵⁵ Ibid; Chengwei Liu, *Remedies for Non-performance: Perspectives from CISG, UNIDROIT Principles & PECL*, section 13.2 <<http://www.cisg.law.pace.edu/cisg/biblio/chengwei.html>> accessed 29 November 2018; Knapp (n 344) 543. He employs the phrase ‘effective loss.’

³⁵⁶ See Gotanda (n 345) 995; Schwenger, ‘Article 74’ (n 350) 1064. Cf. Saidov, ‘Methods of Limiting Damages’ (n 347).

³⁵⁷ Edward Allan Farnsworth, *Farnsworth on Contracts* (Vol 2, Aspen Publishers 1998) section 12.9 at 202-02 in Gotanda (n 345) 995.

³⁵⁸ See 4.6.2.4. Damages Based on Avoidance’.

³⁵⁹ Secretariat Commentary, ‘Article [74]’ (n 349) para 6; CISG Advisory Council Opinion No.6 (n 352) note 3.2.

³⁶⁰ See ‘4.3.2.2. Article 46 for Third-Party IPRs Cases.’

Conversely, IPRs issues over the goods can be resolved by removing the components of the goods that gave rise to IPRs infringement claims. Where the seller delivers the goods subject to third-party IPRs, any expense involved in removing any symbol, logo, or word (or other items) that has been registered by a third-party as an IPR, is recoverable as a loss suffered by the buyer.

The Secretariat Commentary also accepts that in instances where losses are suffered due to the deprivation of usage, the machines that are used for the purposes of production are recoverable.³⁶¹ Similarly, if the goods subject to third-party IPRs are either seized at borders, delivered up, destroyed or become subject to injunctions, with the consequence that the buyer cannot use them to produce goods, the buyer's losses should fall into direct losses.

In instances where the loss is suffered as a result of the delivery of defective goods, the damage is calculated with reference to the difference between 'the objective value of the defective goods and the value which they would have had at the time of the calculation had they been in conformity with the contract'.³⁶² Analogously, the buyer's loss for delivery of the goods subject to third-party IPRs can be measured by applying the same method.

The challenge is to determine the objective value of the goods that are subject to third-party IPRs. Determining the objective value is sometimes difficult because it is not always possible to use or resell these goods in the market without removing the IPRs. It is open to question if the objective value is calculated on the basis that the value of the goods when IP-related components were included did not result in any third-party IPRs infringement, or alternatively, if the value after the removal of any parts that infringe IPRs. In my view, this question carries significant weight when it considered if the goods either bear a sign of a well-known trademark or have a software component (in the absence of which the goods become redundant). The judgment given by *Eximin v Textile and Footwear* in response to this question was instructive.³⁶³ In the case, the jean boots carried a symbol which caused an infringement, and the buyer removed the symbol and sold the boots at a reduced price. The court stated: 'The appellant removed the 'V' mark from the boots and the customer in the United States bought them at a reduced price. Consequently, the claim was reduced to the difference in the price that represented the appellant's loss'.³⁶⁴ Not only the value of the goods in question after the

³⁶¹ Secretariat Commentary, 'Article [74]' (n 349) para 6.

³⁶² Schwenger, 'Article 74' (n 350) 1065.

³⁶³ *Eximin v. Textile* (n 268).

³⁶⁴ *Ibid.*

infringing parts had been removed; but also their value when sold in another country without causing any infringement issues can be applied while calculating the loss.

2. Incidental Loss

This type of loss covers any additional costs that by the buyer has paid in order to prevent the occurrence of further loss.³⁶⁵ Examples include expenses to store the defective goods, transportation costs incurred when returning the defective goods after avoidance, and the cost of inspecting the conformity of the goods.³⁶⁶

The question of what kind of losses fall under the type of incidental loss when third-party IPRs over the goods is also required to be considered. When the buyer sends the goods to be repaired, the transportation costs incurred during the repair of these goods can be included as an incidental loss. Gotanda counts the expenses associated with ascertaining whether the goods conform with the contract are as incidental.³⁶⁷ This view also lends to support the claim that losses arising from the litigation between the buyer and the third-party who claims infringement of his IPRs.

There is an ongoing debate that relates to the recovery of litigation costs including attorney's fees.³⁶⁸ The main subject of debate is generally the costs paid by the buyer to pursue the rights (i.e. to claim for breach of contract and damages). Although a definite decision has not yet been reached,³⁶⁹ the main focus in this instance must be upon questioning the recoverability of litigation costs incurred by the buyer to defend himself against third-party IPRs claims. When these costs are considered, it is apparent that the buyer who faces litigation as a result of the breach of Article 42 may incur costs in order to prevent any future costs which may arise from the extension of the litigation which in turn results from the seller's failure to respond to it on time. Therefore, these costs should be covered by Article 74.³⁷⁰

³⁶⁵ Gotanda (n 345) 996; Schwenger, 'Article 74' (n 350) 1067.

³⁶⁶ Ibid.

³⁶⁷ Gotanda (n 345) 996.

³⁶⁸ See Alastair Mullis, 'Twenty-five Years on—the United Kingdom, Damages and the Vienna Sales Convention' (2007) 71 *Rechts Zeitschrift für ausländisches und internationales Privatrecht* 35, 43-46; Jarmo Vanto, 'Attorneys' Fees as Damages in International Commercial Litigation' (2003) 15 *Pace Int'l L. Rev.* 203; Harry M. Flechtner, 'Recovering Attorneys' Fees as Damages under the UN Sales Convention (CISG): The Role of Case Law in the New International Commercial Practice, with Comments on Zapata Hermanos v. Hearthside Baking' (2001) 22 *Nw. J. Int'l L. & Bus.* 121.

³⁶⁹ The claim for attorney fees is accepted by *Federal District Court Illinois* (United States) 28 August 2001 (PACE). The recoverability of litigation fees is supported by some authors. However Schwenger stated that 'Today, it is widely agreed that litigation costs cannot be claimed on the basis of Article 74.' Schwenger, 'Article 74' (n 350) 1069. See CISG Advisory Council Opinion No.6 (n 352) note 5.

³⁷⁰ See Schwenger, 'Article 74' (n 350) 1071. Schwenger accepted the recoverability of the legal costs for the litigation between the buyer and third-parties under consequential loss.

A further question arises if the damages that have been paid by the buyer to the IPRs holder (as a result of infringement cases) are held to fall within the scope of the incidental loss. These damages paid to third-party may not be considered as an attempt to prevent further losses, but the buyer may well encounter this consequence as a result of the seller's breach of his obligation under Article 42. In my view, damages that are required to be paid by the buyer to the right holder should be a part of the litigation costs, and should, therefore, be recoverable in accordance with Article 74.

3. Consequential Loss

This type of loss covers the buyer's breach of his contractual obligations to his sub-buyers as a result of the defect in the goods delivered by the seller, along with damage caused by the use of defective goods.³⁷¹ As noted in the previous chapter,³⁷² the seller will be liable with regard to the buyer's sub-sales, which includes when the sub-buyers terminate their contract with the buyer for delivery of the goods due to third-party IPRs. It follows that the losses caused by the loss of the sub-sale of the goods in question should be covered by Article 74.

Loss of goodwill or loss of reputation is also recoverable under Article 74 as a consequential loss.³⁷³ The loss of goodwill is defined as '[t]hat intangible asset which arises as a result of name, reputation, customer patronage, location, products and similar factors that have not been separately identified and/or valued but which generate economic benefits'.³⁷⁴ In instances where the buyer of infringing goods generally deals with the licenced products in his commercial activities, and his consumers trust the buyer and believe that the products he sells are at a certain quality and guarantee, the buyer's reputation will be damaged when his customers learn that the buyer has encountered third-party IPRs infringements, the litigation of the right holder or the seizure of goods imported by the buyer at the border. It is also possible that the buyer of infringing goods will use them to produce a new product which will carry a certain brand, and third-party IPRs over the goods which he previously bought will affect his new production and destroy his goodwill. As a result of this possible risk of damage, the seller should also recover the loss of goodwill when he breaches Article 42.

³⁷¹ Schwenzer, 'Article 74' (n 350) 1070; CISG Advisory Council Opinion No.6 (n 352) note 6.1; Schlechtriem/Butler (n 37); Eric C. Schneider, 'Consequential Damages in the International Sale of Goods: Analysis of Two Decisions' (1995) 16 *Journal of International Business Law* 615.

³⁷² See '3.2.2.2./3. Territorial Limitations'.

³⁷³ Schwenzer, 'Article 74' (n 350) 1070. Cf. Mullis, 'Twenty-five' (n 368) 41.

³⁷⁴ Kenneth M. Kolaski and Mark Kuga, 'Measuring Commercial Damages via Lost Profits or Loss of Business Value: Are These Measures Redundant or Distinguishable' (1998) 18 *JL & Com.* 1.

Some authors consider this type of loss to be an exception to the non-recoverability of non-pecuniary losses under the CISG,³⁷⁵ while it is possible that such losses will cause pecuniary damage, ‘considering the economic importance of goodwill’ it cannot be strictly concluded that this type of loss is purely non-pecuniary.³⁷⁶ In addition, the Advisory Council acknowledges that ‘pecuniary damages caused by a loss of goodwill also are, in principle, compensable under Article 74’.³⁷⁷ This loss is difficult to measure,³⁷⁸ and there is also a tendency to confuse the loss of goodwill (or loss of business) and the loss of profit.³⁷⁹ The Advisory Council agrees that there is ‘a potential for double recovery’ when loss of profits is employed to measure the loss of goodwill.³⁸⁰ Because there is a warning about ‘potential’ problems, the availability of recovery of both losses is accepted in limited circumstances.³⁸¹

The difference between the two types of losses is explained by stating that ‘lost profits are measured over a specific time period whereas the value of a business, in principle, represents the value of all future expected profits to be earned over the life of a business’.³⁸² This explanation should be taken as a basis, and when there are claims for both loss of profit and loss of goodwill, the latter should be assessed with reference to the buyer’s future sales.

4. Loss of Profit

The reason why Article 74 specifically refers to the loss of profit is that this loss does not fall the scope of some legal systems.³⁸³ Damage to loss of profit refers to ‘the loss of any increase in the assets caused by the breach.’³⁸⁴ It has been argued that it is difficult to prove and calculate this loss. It has also been suggested that it can be calculated on the basis of the resale of goods which are not delivered, but if the buyer cannot prove any orders, it is difficult to measure lost profits.³⁸⁵

³⁷⁵ Peter Schlechtriem, ‘Non-Material Damages-Recovery under the CISG’ (2007) 19 Pace Int’l L. Rev. 89, 95 for the authors who advocate the view see footnote 20; Schwenger, ‘Article 74’ (n 350) 1071.

³⁷⁶ Schwenger, ‘Article 74’ (n 350) 1071. See Saidov, ‘Methods of Limiting Damages’ (n 347) 329-330.

³⁷⁷ CISG Advisory Council Opinion No.6 (n 352) note 7.1.

³⁷⁸ *Supreme Court of Western Australia* (Australia) 17 January 2003 (PACE); *Audiencia Provincial de Barcelona* (Spain) 20 June 1997 (UNILEX).

³⁷⁹ CISG Advisory Council Opinion No.6 (n 352) note 7.3

³⁸⁰ Ibid. note 7.4; Alain Dupont, ‘Non-Pecuniary Loss in Commercial Contracts: with Special Emphasis on the United Nations Convention on Contracts for the International Sale of Goods (CISG)’ (Minor Dissertation, University of Cape Town 2014).

³⁸¹ CISG Advisory Council Opinion No.6 (n 352) note 7.5.

³⁸² Kolaski/Kuga (n 374) 2.

³⁸³ Secretariat Commentary, ‘Article [74]’ (n 349) note3; Knapp (n 344) 543.

³⁸⁴ Saidov, ‘Methods of Limiting Damages’ (n 347) 317.

³⁸⁵ Damon Schwartz, ‘The Recovery of Lost Profits under Article 74 of the UN Convention on the International Sale of Goods’ [2006] Nordic Journal of Commercial Law 1.

4.6.2.3. Limits to Damages

The CISG prohibits overcompensation of the aggrieved party, for this reason, the seller's liability for damages is limited to the foreseeability of the loss and the duty to mitigate.

1. Foreseeability

The seller's liability for damages is limited to the foreseeability of the loss. This restriction aims to provide a 'fair and reasonable' allocation of risks between the parties.³⁸⁶ The second sentence of Article 74 establishes that:

Such damages may not exceed the loss which the party in breach foresaw or ought to have foreseen at the time of the conclusion of the contract, in the light of the facts and matters of which he then knew or ought to have known, as a possible consequence of the breach of contract.

The foreseeability of the loss by the seller (the party in breach) is the decisive point for Article 74.³⁸⁷ This relates to the how the standard of foreseeability is applied, what must be foreseen and who is required to foresee needs to be answered in order to establish a basis for the damages. The standard for foreseeability will now be examined. The phrase, 'the party in breach foresaw', indicates a subjective standard, but this standard has no practical application due to the difficulty of proving whether the seller foresaw the loss.³⁸⁸ As an objective standard, it is examined with reference to the question of if a reasonable person in the same situation would have been foreseen the loss.³⁸⁹ It is accepted that both an objective and a subjective test is applied for the standard of foreseeability.

The seller's knowledge of the circumstances is considered when assessing foreseeability. By virtue of 'the facts and matters of which he knew or ought to have known', the determination of the foreseeability of the loss cannot be evaluated regardless of the situation in which the seller placed. In addressing the standard for assessing knowledge, Knapp suggests that 'such knowledge generally flows from the experience of a merchant';³⁹⁰ alternatively, it arises 'whenever the other party to the contract has drawn his attention to such possible consequences in due time'.³⁹¹ It is also argued that 'modern business practices (and equipment), accounting

³⁸⁶ Djakhongir Saidov, 'The Present State of Damages Under the CISG: A Critical Assessment' (2009) 13 *Vindobona J. Intl'L Com. L. & Arb.* 197; Farnsworth, 'Legal Remedies' (n 42) 1208; Lajos Vékás, 'The Foreseeability Doctrine in Contractual Damage Cases' (2002) 43 *Acta Juridica Hungarica* 145, 159. According to the author, due to claim for damages does not require negligence of breaching party, the breaching party must bear 'the entire risk for damages inherent in contract violation', thus risk is limited to foreseeability rule.

³⁸⁷ Schwenzler, 'Article 74' (n 350) 1078.

³⁸⁸ Huber/Mullis (n 19) 272.

³⁸⁹ *Oberster Gerichtshof* (Austria) 14 January 2002 (PACE).

³⁹⁰ Knapp (n 344) 542.

³⁹¹ *Ibid.*

methods, and the extensive communication of information' mean that the breaching party encounters more information, which in turn affects the foreseeability of the loss.³⁹²

With regard to Article 42, the seller's liability is also limited to third-party IPRs which he knew or could not have been unaware of at the time of the conclusion. Whether the same standard of knowledge as in Article 42 is applied to evaluate the foreseeability of the loss by the seller must be questioned. The phrase 'he knew or could not have been unaware, as set out in Article 42's wording, is interpreted, makes it possible to argue that the seller has a superior knowledge on the components of the goods; hence this enables him to foresee possible IPRs problems.³⁹³ This foreseeability and the duty to investigate that the wording 'could not have been unaware' is believed to place on the seller is investigated with reference to their professional capacity. It is generally supported that if the seller is a producer, he better knows every component of the product, and can therefore easily research the possible third-party IPRs. From this perspective, there is a difference between the 'experience merchant' standard and 'being producer of the goods', both of which are set out in Article 74.

The assessment of the seller's knowledge on the third-party IPRs with reference to his professional capacity seems stricter than the standard applied in foreseeability under Article 74. Nevertheless, commentators suggest that in order to determine the seller's knowledge, the circumstances of each case and the type of IIP rights should be taken into account.³⁹⁴ This application can also be seen in *Eximin v. Textile and Footwear*.³⁹⁵ The signs attached to the denim boots infringed the trademark of Levis, and the court held that

[t]he trade mark is registered by the American company 'Levis'. This company is not a small, unknown company. This company's goods are marketed around the world and any sensible person ought to have assumed that such a company would register a trade mark for its products, at least in its country of origin, which is the United States. This assumption is especially valid with regard to the appellant and the respondent, both of which are companies that do business in this field and are aware of its special characteristics.³⁹⁶

³⁹² Arthur G. Murphey, Jr, 'Consequential Damages in Contracts for the International Sale of Goods and the Legacy of Hadley' (1989) 23 Geo. Wash. J. Int'l L. & Econ. 415, 452.

³⁹³ See '3.2.2.2./2..Liability Requirements'.

³⁹⁴ Anthony VanDuzer, 'A Seller's Responsibility for Third Party Intellectual Property Claims: Are the UN Sales Convention Rules Better?' (2001) 4 Canadian International Lawyer 187; Christian Rauda and Guillaume Etier, 'Warranty for Intellectual Property Rights in the International Sale of Goods' (2000) 4 Vindobona J. Intl'L Com. L. & Arb. 30, 45-48; Paul Katzenberger, 'Contractual Liability of the Seller Due to Third Parties' Patents and Other IP Rights under German Law and the UN Convention on Sales Contracts' in Wolrad Prinz zu Waldeck und Pyrmont and others (eds.) *Patents and Technological Progress in a Globalized World* (Springer 2009) 581, 589.

³⁹⁵ *Eximin v. Textile* (n 268).

³⁹⁶ *Ibid.*

In this instance, the court did not only consider if the seller is a producer of goods; it also took into account the question of if the parties acted as sensible persons who conduct business in the same area as third-party IPRs holder. Therefore, it can be concluded that if a seller is held liable for the breach of Article 42 considering his knowledge of IPRs, it should also be acknowledged that he foresaw the results of his breach in accordance with Article 74.

Although Articles 42 and 74 establish that the evaluation of the seller's liability is based on his knowledge, the latter does not establish a duty to inquire into the possible loss which may occur as a result of the breach. Stoll and Gruber also highlight this. They observe:

[I]t must be emphasized that the foreseeability rule concerns only the attribution of the consequences of liability for the breach, and that attribution is independent of whether and to what extent the breach is attributable to the promisor's fault.³⁹⁷

It is only relevant if a reasonable person in the same circumstances as the seller would foresee that the loss is a possible result of his breach.³⁹⁸ What matters is not to foresee the breach of contract, but it is the loss that must be foreseeable. Neither the precise amount of the loss nor the type of loss incurred because of the breach is required to be foreseen.³⁹⁹

A foreseeable loss from a breach of Article 42 can include a reduction in the value of the goods subject to third-party IPRs, repair costs incurred in order to be able to resell the goods without any infringement of IPRs or the paying of license fees to avoid further losses.⁴⁰⁰ Moreover, the buyer's liability to his sub-buyers can be foreseeable when the wording of Article 42, which limits the seller's liability to those states where 'the goods will be used or resold, is taken into account. These territories are determined in accordance with the contemplation of the parties. Because the buyer can request the delivery of the goods at a State different from his place of business, it is apparent that information on the use or resale of the goods in another country is brought to the seller's attention. A breach of duty to deliver the goods free from third-party IPRs in these countries can result in the buyer becoming liable to his sub-buyers.⁴⁰¹

The time at which to determine foreseeability is at the time of the conclusion of the contract. In common with Article 42, any risks that appear or of which the seller becomes aware, or

³⁹⁷ Hans Stoll and Georg Gruber, 'Article 74' in Peter Schlechtriem and Ingeborg Schwenzer (eds) *Commentary on the UN Convention on the International Sale of Goods (CISG)* (2nd Ed, OUP 2005) 764.

³⁹⁸ *Ibid* 765.

³⁹⁹ Franco Ferrari, 'Hadley v Baxendale v Foreseeability under Article 74 CISG' in Saidov/Cunnington (eds) (n 343) 312. See UNCITRAL Digest 2012 (n 20) 349 note 33, *Oberster Gerichtshof* (n 389).

⁴⁰⁰ *Ibid* 766-767; Schwenzer, 'Article 74' (n 350) 1080.

⁴⁰¹ See Schwenzer, 'Article 74' (n 350) 1080-1081; Djakhongir Saidov, *The Law of Damages in International Sales The CISG and Other International Instruments* (Hart Publishing 2008) 105.

ought to become aware, after the time of the conclusion of the contract do not affect the seller's liability.⁴⁰²

2. Duty to Mitigate

Article 77 establishes that an injured party must mitigate the loss by taking reasonable measures, and if he fails to do so, it is not possible to recover the loss which would have been avoided. The CISG does not allow the aggrieved party to 'await passively incurrence of the loss',⁴⁰³ and the duty to mitigate is seen as a 'general principle of good faith in international commercial law'.⁴⁰⁴ The Article sets the mitigation rule out in the following terms:

A party who relies on a breach of contract must take such measures as are reasonable in the circumstances to mitigate the loss, including loss of profit, resulting from the breach. If he fails to take such measures, the party in breach may claim a reduction in the damages in the amount by which the loss should have been mitigated.

Although it is called a 'duty', it does not give rise to a demand to fulfil the duty; moreover, failure to do so does not lead to liability, but it only causes a reduction in the amount of damages, which are in proportion to what could have been avoided.⁴⁰⁵ There is still an ongoing debate of the status of Article 77; accordingly, it is either seen as a duty 'owed by the injured party to the party in breach'⁴⁰⁶ or as an action 'to be taken in the aggrieved party's own interests'.⁴⁰⁷ Saidov rejects both of these arguments because the seller cannot ask for the performance of this duty and 'duty to himself' contradicts the rationale of an obligation, and supports that '[i]nstead, its function will be the prevention of the party exercising his right to remedy with specific performance'.⁴⁰⁸

The Article requires the taking of 'reasonable measures'; but does not provide a definition of the term that makes it possible to determine whether the buyer has indeed used reasonable measures. Accordingly, it is assessed in accordance with each case, and a measure is accepted as reasonable when it meets what could 'be expected under the circumstances from a party acting in good faith'.⁴⁰⁹ The evaluation of reasonableness is based on the buyer's experience

⁴⁰² See Schwenger, 'Article 74' (n 350) 1078; Saidov, *The Law of Damages* (n 401) 119.

⁴⁰³ Victor Knapp, 'Article 77' in Bianca/Bonell (eds) (n 56) 559; Ingeborg Schwenger, 'Article 77' in Schwenger (n 11) 1104.

⁴⁰⁴ Peter Riznik, 'Some Aspects of Loss Mitigation in International Sale of Goods' (2010) 14 *Vindobona J. Intl'L Com. L. & Arb.* 267, 269.

⁴⁰⁵ Saidov, 'Methods of Limiting Damages' (n 347) 352.

⁴⁰⁶ Secretariat Commentary, 'Article [77]' in *Official Records* (n 23) note 2.

⁴⁰⁷ Schwenger, 'Article 77' (n 403) 1105.

⁴⁰⁸ Saidov, 'Methods of Limiting Damages' (n 347) 353.

⁴⁰⁹ Stoll/Gruber, 'Article 77' in Schwenger (n 397) 790; Schwenger, 'Article 77' (n 403) 1107. The author states 'the reference point is the conduct of a reasonable person in the same position.'

in the business, and his financial capacity also has been proposed.⁴¹⁰ The buyer is not obliged to take ‘excessive’ measures, and refraining from doing so does not constitute a failure to mitigate the loss.⁴¹¹

Although the reasonableness of a measure is determined on a case-by-case analysis, there are some measures that can be given as an example of mitigating measures. For example, a cover transaction by the buyer can prevent consequential losses such as the buyer’s liability to his sub-buyers, or loss of profit when there is non-delivery or defective delivery.⁴¹²

In terms of third-party IPRs claims, it is possible that the buyer can purchase substitute goods to fulfil his obligation to his sub-buyers or use in his own manufacture process. However, when the actual sale contract is for the delivery of a specific brand or for the goods are required to carry a licensed or patented component, the cover transaction can be costly, as it will have to be concluded with the company that legally holds the IPRs or the license in question. The question then arises if the buyer should be considered as having failed to take reasonable steps if he avoids concluding a cover transaction. While it is not easy to reach a definite answer to this question, given that ‘a cover purchase at the lowest price possible’ can be seen as reasonable,⁴¹³ the buyer’s failure to enter a cover purchase may not result in a failure to mitigate the loss. Also, as Opie noted, the time required to lessen the loss and ‘whether a substitute transaction was conducted on an arm’s length basis’ will be considered when determining reasonableness.⁴¹⁴ Thus, difficulty in finding a new supplier and taking delivery of the goods within a limited time which results from the buyer’s liabilities to his sub-buyers, would not constitute a failure to mitigate.⁴¹⁵

Another possibility for mitigating the loss could be a lawsuit that reveals whether a third-party has a basis for advancing a claim of infringement. At the end of the lawsuit, the court may, as previously claimed, hold that there has actually been an infringement of third-party IPRs as previously claimed. Although this is the case, a quick response to the third-party’s claims reduces the time that will need to be committed to proving that the third-party IPRs over the goods and the buyer can begin to solve the contractual issues that relate to the seller quicker than in the instances when he awaits passively. Also, the buyer can take rapid precautions as a

⁴¹⁰ Joseph Lookofsky, *Understanding the CISG A Compact Guide to the United Nations Convention on Contracts for the International Sale of Goods* (4th (worldwide) Ed, Kluwer Law International 2012) 130.

⁴¹¹ Knapp, ‘Article 77’ (n 403) 560; Schwenger, ‘Article 77’ (n 403) 1107.

⁴¹² Stoll/Gruber, ‘Article 77’ (n 409) 791.

⁴¹³ Secretariat Commentary of Article [75] (n 413) note 4.

⁴¹⁴ Elisabeth Opie, ‘Commentary on the manner in which the UNIDROIT Principles may be used to interpret or supplement Article 77 of the CISG’ (January 2005)

<<http://www.cisg.law.pace.edu/cisg/principles/uni77.html#eoiii>> accessed 13 November 2018.

⁴¹⁵ See *Schiedsgericht der Handelskammer Hamburg* (Germany) 21 March 1996 (PACE).

result of the judgment given by the lawsuit, and this enables him to decide what to do in instances where the goods in question cannot be used or resold.

When third-party IPR infringements arise in a particular country, does the buyer have a duty to search for other countries where the goods in question can be sold without any third-party IPRs over it? This issue also is decided by considering the circumstances of each case. The buyer needs time to examine the countries where the goods in question can be sold without encountering any third-party IPR claims. Time is also required to find potential buyers for the goods in question. This should be decided on the basis of the time required, the buyer's ability to contact new customers in his professional capacity, and the possibility of reselling the goods (for example, when goods carry a component which is patented under worldwide protection, their resale in another country without IPR infringement cannot be possible).

Additionally, avoidance of the contract, repair of the goods itself, or 'to take legal measures against Acts of State' are illustrated as other measures which can be taken to mitigate the loss.⁴¹⁶ With regard to third-party IPR claims, if the removal of a specific design, packaging or other item prevents the occurrence of IPRs infringement, the buyer can remove these himself. If this removal forces him to resell the goods at a reduced price, the buyer should claim the difference between the aimed (or previously contracted) and the reduced price. In addition, the buyer should inform the seller about the risk of third-party IPR infringement, this is particularly the case when the third-party approaches the buyer and demands him to stop using or reselling the goods.⁴¹⁷ Even if the buyer undertakes such measures but still cannot avoid or lessen the loss, the question of his failure is decided with reference to the question of whether the buyer was 'in a position to take more effective measures and could be reasonably expected to do so in the circumstances'.⁴¹⁸

The reduction of damages is calculated by deducting the amount which should have been mitigated by reasonable measures from the full damages calculated according to Articles 74, 75 or 76.⁴¹⁹ The burden of proof is on the seller.

4.6.2.4. Damages Based on Avoidance

The buyer's claim for damages when he avoids the contract is evaluated with reference to the question of if he made a substitute transaction or not. If, after avoiding the contract, the buyer

⁴¹⁶ Stoll/Gruber, 'Article 77' (n 409) 790; Riznik (n 404) 355.

⁴¹⁷ Schwenger, 'Article 77' (n 403) 1108; *CD media case* (n 83).

⁴¹⁸ Knapp, 'Article 77' (n 403) 560.

⁴¹⁹ *Ibid* 562.

has bought substitute goods, damages are calculated based on Article 75, whereas, if there is no replacement, the market price rule set under Article 76 applies. These articles do not displace of Article 74, and they instead provide alternative methods of calculating damages when the contract is avoided.⁴²⁰

1. Article 75

Article 75 applies if the buyer has bought substitute goods and this substitute transaction was reasonable. The calculation of damages is made based on ‘the difference between the contract price and the price in the substitute transaction’.⁴²¹ Additionally, the buyer can claim for further damages that are recoverable under Article 74.

The buyer must enter the substitute transaction, and it does not need to be completed.⁴²² The wording of the article establishes that ‘the buyer has bought the goods in replacement’, the aim of the substitute transaction is ‘to satisfy the promise’s expectation interest’.⁴²³ The transactions or the question of if the buyer’s efforts constitute a substitute transaction are both important. According to most authors, ‘disposal of the spoiled goods’, ‘rental of substitute goods’ or producing the goods by himself are not identified as substitute transaction within the meaning of Article 75.⁴²⁴ However, if the buyer uses goods which he purchased previously to fulfil his obligations to his sub-buyers, it is argued that the buyer can claim for the cost of these goods.⁴²⁵

The substitute transaction must be conducted ‘in a reasonable manner and within a reasonable time after avoidance.’ In order to determine the reasonableness of the transaction, the question of if the buyer acted as a ‘careful and prudent businessman’ is examined.⁴²⁶ In addition, the buyer must aim for ‘the lowest price reasonably possible’; this, however, does not mean that the substitute contract must carry the exact same terms of sale with regard to, for example, quantity, credit or time of delivery.⁴²⁷ Although the lowest price is the main objective, it is claimed that the buyer is not obliged to examine all possibilities before concluding the

⁴²⁰ CISG Advisory Council Opinion No:8 ‘Calculation of Damages under CISG Articles 75 and 76’, note 1.2. <<http://cisgw3.law.pace.edu/cisg/CISG-AC-op8.html>> accessed 27 November 2018.

⁴²¹ Article 75.

⁴²² Schwenger, ‘Article 75’ in Schwenger (n 11) 1087; Stoll/Gruber, ‘Article 75’ in Schwenger (n 397) 772.

⁴²³ Ibid.

⁴²⁴ John Gotanda, ‘Article 75’ in Kröll, Mistelis and Perales Viscasillas (eds) (n 16) 1015-1016; Schwenger, ‘Article 75’ (n 422) 1088; Huber/Mullis (n 19) 285.

⁴²⁵ Schwenger, ‘Article 75’ (n 422) 1088.

⁴²⁶ CISG Advisory Council Opinion No:8 (n 420) note 2.3.1.

⁴²⁷ Secretariat Commentary of Article [75] (n 413) para 4.

substitute contract, which therefore can be made above the market price in certain circumstances.⁴²⁸

With regard to the breach of Article 42, if the goods delivered are counterfeit and the buyer would like to obtain genuine goods by way of a substitute transaction, it is highly likely that the price will be higher than that of similar products in the market because the IPR holder can determine the price based on its brand value and business reputation. In this case, the reasonableness of a substitute transaction can be evaluated with reference to the question of if the buyer should acquire goods with a specific brand or with a patent, or whether similar goods free from third-party IPRs are sufficient for performing his obligations to sub-buyers. Unless the buyer deals with the resale of a specific brand or goods with a specific patent or industrial design, it is maintained that the buyer does not need to make a substitute transaction with the IPRs holder.

Another requirement is that the substitute transaction must be made within a reasonable time after avoidance. The reasonableness of time depends on the circumstances of each case, and conditions such as ‘the existence and variability of a market for the goods’ will be taken into account.⁴²⁹

2. Article 76

When the contract is avoided and the goods have a current price but a substitute transaction has not been made, damages are measured based on Article 76. The damage is then based on the difference between the contract price and the current price at the time of the avoidance. This method of calculating damages is also known as the ‘market-price rule’. As with Article 75, further damages can be claimed in accordance with Article 74. Article 76 may also be applied if the substitute transaction is unreasonable under Article 75.⁴³⁰

Article 76 provides an abstract calculation of damages, which is only available when the goods have a current price. Article 76(2) defines the current price as ‘the price prevailing at the place where delivery of the goods should have been made’; however, if there is no current price there, ‘the price at such other place as serves as a reasonable substitute’ is used. The current price does not mean that the goods have ‘official or unofficial market quotations’.⁴³¹ The current

⁴²⁸ Gotanda, ‘Article 75’ (n 424)1017; Peter Schlechtriem, ‘Calculation of Damages in the event of Anticipatory Breach under the CISG’ <<http://www.cisg.law.pace.edu/cisg/biblio/schlechtriem20.html#i>> accessed 22 November 2018. See *ICC Court of Arbitration Basel* Case No. 8128 of 1995 (UNILEX). Cf. CISG Advisory Council Opinion No:8 (n 420) note 2.3.1.

⁴²⁹ CISG Advisory Council Opinion No:8 (n 420) note 2.3.2; Schwenzler, ‘Article 75’ (n 422) 1091.

⁴³⁰ CISG Advisory Council Opinion No:8 (n 420) note 4.1.4.

⁴³¹ Enderlein/Maskow (n 39) 305.

price is established ‘as the average price generally charged for goods of the same kind traded on the same business under comparable circumstances with a certain regularity at a particular location’.⁴³²

If the goods were produced in compliance with the buyer’s specifications, then it may not be possible to determine the current price may not be possible.⁴³³ In an arbitral award, the current price could not be established because the value of coal, which is defined by many factors and the needs of consumers, was subjective.⁴³⁴ Consequently, Article 76 was not applied when calculating damages.

The time of avoidance is the relevant time for determining the current price. But, if the contract was avoided after taking the goods delivered, ‘the current price at the time of such taking over shall be applied’. In a breach of Article 42, as discussed above,⁴³⁵ the avoidance of the contract can take place after the delivery of the goods, this is why, the decisive time for these cases should be the time when the goods are taken over.

Article 76(2) suggests that the current price is established at the place where the delivery should have taken place, which refers to Article 31 in order to determine this place. However, concerns have been raised over its applicability as a result of Article 31(a), which established that the seller is obliged to ‘hands the goods over to the first carrier for transmission of to the buyer’. This article can be inappropriate because the buyer does not necessarily buy the substitute at that place of shipping the goods.⁴³⁶ Although establishing the current price at a place which is far from the buyer can be problematic, it is argued that the buyer can buy substitute goods in the destination country and claim the measure of damages under Article 75.⁴³⁷ From my perspective, it can be acceptable to measure damages upon the basis of the current price at the place where the goods are handed over to the carrier because the goods were purchased in a country other than their destination.

If there is no current price at the place of delivery, the price that operates within a location that ‘serves [as] a reasonable substitute’ is instead used. The reasonableness of this substitute is

⁴³² Ingeborg Schwenzer, ‘Article 76,’ in Schwenzer (n 11) 1098-1099; CISG Advisory Council Opinion No:8 (n 420) note 4.3.1.

⁴³³ Victor Knapp, ‘Article 76’ in Bianca/Bonell (eds) (n 56) 558.

⁴³⁴ *ICC Court of Arbitration Russia* Case No. 8740 of October 1996 (PACE).

⁴³⁵ See ‘4.5.2. Under the CISG’.

⁴³⁶ See Stoll/Gruber, ‘Article 76’ in Schwenzer (n 357) 784; Honnold, *Uniform Law* (n 15) 451.

⁴³⁷ Schwenzer, ‘Article 76,’ (n 432) 1100; Jeffery S. Sutton, ‘Measuring Damages Under the United Nations Convention on the International Sale of Goods’ (1989) 50 *Ohio St. LJ* 737, 747; Secretariat Commentary, ‘Article [76]’ *Official Records* (n 23) note 5.

examined with reference to transportation costs.⁴³⁸ When more than one place can serve as a reasonable substitute, the nearest should be preferred.⁴³⁹

4.6.3. Under the SGA

Under the SGA, s51 establishes that the buyer can demand damages for non-delivery; if the warranty is breached, s53 can be applied. The general rules for assessing the damages are provided by s51(2) and (3). In this section, the damages that can be recovered under SGA is examined with reference to the types of losses that can be incurred as a result of third-party IPRs over the goods sold. The damages available to the buyer when the seller breaches s12(1) and (2), along with the question of measurement will now be addressed.

The aim of awarding damages is to put the innocent party in the position in which he would have been if the contract had been performed by the breaching party.⁴⁴⁰ Although the damages are assessed in accordance with the expectation interest of the aggrieved party, which is described as the ‘ruling principle’,⁴⁴¹ it is also should be examined the reliance interest with practical considerations.

Fuller and Perdue categorised the interests that should be protected by law into three categories: restitution, reliance and expectation.⁴⁴² The restitution interests seek to prevent the unjust enrichment of the breaching party who failed to perform his promise.⁴⁴³ The reliance interest is to put the aggrieved party ‘in as good position as he was before the promise was made’, while expectation interest considers the aggrieved position if the defendant performed his promise.⁴⁴⁴ They suggest that greater emphasis should be placed on reliance interest and claim that reliance interest provides stronger protection for the aggrieved party than expectation interest.⁴⁴⁵

This argument proposed by Fuller and Perdue has been criticised as inadequate and misleading,⁴⁴⁶ Friedmann observes that ‘a person [buyer] enters into a contract because he is

⁴³⁸ CISG Advisory Council Opinion No:8 (n 420) note 4.5.2.

⁴³⁹ Schwenzer, ‘Article 76,’ (n 432) 1100.

⁴⁴⁰ Bridge, *The Sale of Goods* (n 45) 640; Burrows (n 4) 157. The interest protected by the law is the buyer’s expectation interest. On this point see David H Vernon, ‘Expectancy Damages for Breach of Contract: A Primer and Critique’ [1976] Wash. ULQ 179; *Golden Strait Corp v Nippon Yusen Kubishika Kaisha* [2007] UKHL 12, [2007] 2 A.C. 353 [9], [29]; *Flame SA v Glory Wealth Shipping PTE Ltd* [2013] EWHC 3153 (Comm) [17].

⁴⁴¹ Bridge, *The Sale of Goods* (n 45) 12.2.

⁴⁴² Fuller and Perdue (n 347).

⁴⁴³ Ibid 53.

⁴⁴⁴ Ibid. 53.

⁴⁴⁵ Ibid 75.

⁴⁴⁶ See Richard Craswell, ‘Against Fuller and Perdue’ (2000) 67 University of Chicago Law Review 99; David McLaughlan, ‘Reliance Damages for Breach of Contract’ [2007] New Zealand Law Review 417; Campbell (n **Error! Bookmark not defined.**).

interested in getting that which the other party has to offer and because he places a higher value on the other party's performance than on the cost and trouble he will incur to obtain it.⁴⁴⁷ In light of the main principle of contract law, *pacta sunt servanda*, the effect should be given to the promises undertaken by the parties when concluding the contract. When damages are measured, the focus should be on the expectation interest. It is, however, possible to claim reliance interest when the aggrieved party cannot prove what position he would have been in and his expectation. Such difficulties in obtaining proof are treated as a consequence of the breach by the other party.⁴⁴⁸ There is a right to elect between expectation and reliance interests by the aggrieved party,⁴⁴⁹ although he can never recover more than his expectation interest.

In terms of the cases that are concerned with third-party IPRs, which interest should be employed when assessing the damages is of importance. By third-party IPRs over the goods, the seller's duty to have a 'right to sell' or to provide enjoyment of the goods without facing with any charge and encumbrances are breached. This breach generally affects the buyer's use or resale of the goods in accordance with his intention. In the instances where he is required to pay damages or license fees to the IPR holder, putting the buyer in the same position before the contract was made by measuring the damages on the reliance interest will not help the buyer to recover these losses. When third-party IPRs over the goods arises, the buyer's expectation of the future contracts or sales is affected, also losses will be incurred as a result of being liable to the IPRs holder will arise. Overall, these losses are higher than the reliance interest.

The reliance interest also does not take into account any lost opportunities, and this is another disadvantage that derives from using it to measure damages.⁴⁵⁰ In cases that are concerned with IPRs, both the potential contracts that would have been concluded and the price at which the goods would have been resold are important for the buyer. These interests are not considered if the damages are calculated based upon the reliance interest. Therefore, the buyer's protected interest should be the expectation interest.

4.6.3.1. Type of Losses Caused by Third-Party IPRs

The buyer is entitled to damages based on the loss he suffered.⁴⁵¹ The loss is classified as pecuniary and non-pecuniary loss. A brief examination of the types of losses that are incurred

⁴⁴⁷ Daniel Friedmann, 'The Performance Interest in Contract Damages' (1995) 111 LQR 628, 630.

⁴⁴⁸ Bridge, *The Sale of Goods* (n 45) 640.

⁴⁴⁹ *Cullinane v British Remea* [1954] 1 QB 292, Lord Denning 'the plaintiff. has an election; he can either claim for loss of profits or for his wasted expenditure'

⁴⁵⁰ McLaughlan (n 446) 420.

⁴⁵¹ Bradgate (n 44) 326; *Treitel The Law of Contract* (n 183) 989.

due to the breach of contract and a consideration of the losses caused by third-party IPRs will now be provided.

1. Pecuniary Losses

Pecuniary loss covers economic losses such as loss of bargain,⁴⁵² and expenditure or loss of profit.⁴⁵³ The loss of bargain is expected as the normal pecuniary loss, and the latter covers the consequential loss.⁴⁵⁴ When the s12 is breached, it raises the question of what losses are incurred if the buyer is stopped by process of law from reselling or using the goods in question, The losses incurred due to the charge and encumbrances over the goods (breach of s12(2)) requires closer attention. The buyer may suffer pecuniary loss due to being deprived of the goods in question; this can be for the period until the third-party IPRs over the goods are dispersed.⁴⁵⁵ This deprivation can result from a seizure of the goods, injunctions obtained by the right holder. Alternatively, the buyer may prefer not to deal with the goods until the IPRs issues are settled.

This deprivation of use or resale of the goods also leads to the loss of profit. When the buyer is prevented from using or reselling the goods, the profits that he could have made can be recovered by applying the remoteness test (examined in 4.6.3.3.).⁴⁵⁶ Also, any expense the buyer has incurred in order to obtain substitute goods either for his own use or to meet a delivery obligation of the goods to his sub-sellers needs to be recovered.⁴⁵⁷ If the buyer encounters a lawsuit issued by his sub-buyers that is based on the buyer's failure to perform in his sub-contract (which arises due to the seller's failure to perform at the main contract), the buyer can be recovered with regard to the rules apply to the measure of damages.⁴⁵⁸

As a result of third-party IPRs, the buyer may have to pay some expenses in order to release the goods in question from the third-party's superior right over them. When the buyer has paid any license fee in order to obtain the title over the goods, this should be regarded as a loss that can be compensated by damages.⁴⁵⁹ However, if it is not possible to obtain a license for the goods, the buyer may choose to remove the infringing parts of the goods to cease the infringement and resell or use the goods without third-party's disturbance. Expenses can be

⁴⁵² Farnsworth, 'Legal Remedies' (n 42) 1161.

⁴⁵³ See *Goode on Commercial Law* (n 112) 133. This type of loss defined as consequential loss.

⁴⁵⁴ Harvey McGregor, *McGregor on Damages* (19th ed, Sweet & Maxwell 2014) 4-002, 4-018.

⁴⁵⁵ *Ibid* at 4-018.

⁴⁵⁶ McKendrick, *Sale of Goods* (n 127) 10-031.

⁴⁵⁷ See Ellinger (n 319) 170. It is normally the case that the law does not care what the buyer aimed to do with the goods in question. However, the buyer's expenses incurred to prevent any damages to the sub-sellers due to the late or no delivery should be considered within his losses. See McKendrick, *Sale of Goods* (n 127) 492-493.

⁴⁵⁸ Bridge, *The Sale of Goods* (n 45) 12.103.

⁴⁵⁹ *Benjamin's Sale of Goods* (n 45) 4-12.

incurred as a result of repairs being undertaken to remove the infringing parts (including removing the infringing trademark from the label), these are also covered as a pecuniary loss.⁴⁶⁰ If, as a result of the infringing parts being removed, the goods repaired are sold at a lower price than the previously agreed or planned sale, this loss of profit should be recovered. The buyer searches for new markets to sell the goods in question without causing any third-party IPRs infringement and also conducts new business relationships between the new sellers. Any difference that arises between his actual and intended profits is required to be covered.

When the buyer's only choice is to abandon the goods unattended, his losses will be the price he paid for the goods, and the loss of profit, as well as the damages he has to pay his sub-buyers on the ground of non-delivery of the goods according to any resale agreement.

2. Non-Pecuniary Losses – Loss of Reputation

Non-pecuniary loss covers pain and suffering, loss of reputation and mental distress.⁴⁶¹ McKendrick and Worthington classify non-pecuniary losses under positive and consequential loss.⁴⁶² The former covers cases when a term is breached which is expressly or impliedly undertaken in order to confer a non-pecuniary benefit.⁴⁶³ A consequential loss occurs as a result of the contract being breached and includes losses such personal injury, mental distress, physical inconveniences, illness and loss of reputation.⁴⁶⁴

The extent to which damages recovers this loss incurred by the breach of contract has been debated.⁴⁶⁵ As a general principle, damages for non-pecuniary loss is not recoverable under English law. The unwillingness to compensate the parties for this kind of loss derives from the difficulty in determining the loss and its financial assessment.⁴⁶⁶ However, McKendrick clearly establishes that:

[i]n a world where contracts are increasingly entered into for reasons other than to enhance the financial well being of one or more of the parties to the contract, it is important that legal systems give careful consideration to the circumstances in which

⁴⁶⁰ *Benjamin's Sale of Goods* (n 45) 4-28.

⁴⁶¹ Andrew Burrows, *Remedies for Torts and Breach of Contract* (3rd Ed, OUP 2004) 29; *McGregor on Damages* (n 454) 2-001; Michael Bridge 'Contractual Damages for Intangible Loss: A Comparative Analysis' (1984) 62 *The Canadian Bar Review* 323. Bridge suggested that the expression 'intangible loss' should be applied to the losses that are not calculated by monetary evaluation.

⁴⁶² E. McKendrick and K. Worthington 'Damages for Non-Pecuniary Loss' in Cohen/McKendrick (eds) (n 1) 287.

⁴⁶³ *Ibid* 301.

⁴⁶⁴ McKendrick/Worthington (n 462) 308-309; Burrow, *Remedies for Torts* (n 421) 312.

⁴⁶⁵ Bridge, 'Contractual Damages' (n 461); Andrew Tettenborn, 'Non-Pecuniary Loss: the Right Answer but Bad Reasoning?' (2003) 2 *Journal of Obligations & Remedies* 94.

⁴⁶⁶ McKendrick/Worthington (n 462); Rowan (n 106) 122-123.

damages can be awarded for non-pecuniary losses suffered as a result of a breach of contract.⁴⁶⁷

He observes that some circumstances require to acknowledge the protection of non-pecuniary interests. Here it should be acknowledged that English courts have begun to recognise the recovery of non-pecuniary loss, recovery is however only available in certain circumstances⁴⁶⁸

With regard to third-party IPRs claims which cause loss to the buyer, the attention will be given to the second category of non-pecuniary loss, in particular, the loss of reputation. Even though the courts are reluctant to provide damages for loss of reputation, there are some cases where the court ordered the breaching party to pay this loss.⁴⁶⁹ In *GKN Centrax Gears Ltd v Matbro Ltd*,⁴⁷⁰ the claimant delivered defective drive axles for forklift trucks which were sold by the defendant to his customers. As a result of that the trucks sold by Matbro broke down, its reputation had been injured, and its trade had been damaged. Thus, Matbro counterclaimed for these losses it suffered. Judge Stabb said that it might be possible to award this kind of damages if Matbro can support its claim by way of providing ‘positive evidence.’⁴⁷¹ After Matbro provided statistics and figures which compared the company worth other suppliers within the relevant time, the learned arbitrators decided that: ‘[...] the defendants were entitled to damages only for specific losses proved on balance of probabilities to have resulted from the loss of contemplated sales, which loss was the direct consequences of the plaintiff’s breaches of contract.’⁴⁷² Even though in this case the damages was not provided for the loss of reputation, but for the loss of orders, it should be noted that in this instance the loss of orders occurred as a result of the injury that was inflicted on the plaintiff’s business reputation.

The loss of business reputation can also arise when the buyer resells goods that infringe the third-party IPRs. When the buyer’s customers become aware of IPRs issues, they can even assume that the buyer generally sells counterfeit goods. This image of the buyer can trigger the loss of future orders from existing customers and cause the loss of other business opportunities. Even if the occurrence of this loss as a result of third-party IPRs issues is acknowledged, the court may encounter difficulty in assessing this kind of loss. Nevertheless, the buyer can still

⁴⁶⁷ McKendrick/Worthington (n 462); Rowan (n 106) 122-123. For a similar account see Burrows, *Remedies for Torts* (n 461) 315; Andrew Tettenborn, ‘Consequential Damages in Contract-The Poor Relation’ (2008) 42 *Loy. L.A.L Rev.* 177. Tettenborn argues that the loss can be the one direct or consequential loss resulting from the breach of the contract, this should not lead us to treat these losses differently.

⁴⁶⁸ Rowan (n 106) 121-122.

⁴⁶⁹ *Aeiral Advertising Co v Batchelors Peas Ltd* [1938] 2 All ER 788; *Anglo Continental Holidays Ltd. v. Typaldos Lines (London) Ltd.* [1967] 2 Lloyd’s Rep. 61.

⁴⁷⁰ [1976] 2 Lloyd’s Rep 555.

⁴⁷¹ *GKN Centrax* (n 470) 562.

⁴⁷² *Ibid* 566-567.

be entitled to damages for the pecuniary losses that arise from the loss of reputation.⁴⁷³ The buyer needs to provide some evidence that the monetary loss he suffered can be associated with the loss of reputation. After presenting this link, the buyer should be able to obtain damages for loss of his business reputation.

4.6.3.2. Measure of Damages

The main rule for the assessment of damages is set out under s51(2). It states: '[t]he measure of damages is the estimated loss directly and naturally resulting, in the ordinary course of events, from the seller's breach of contract.' This rule is followed when there is no available market for the goods in question. It limits damages for the losses which occur as a result of the seller's breach of the contract. This limitation is the 'remoteness' or 'foreseeability' test that is followed when assessing damages.

When there is an available market, s51(3) applies when measuring the damages. It stated that 'the measure of damages is prima facie to be ascertained by the difference between the contract price and the market or current price of the goods at the time or times when they ought to have been delivered or (if no time was fixed) at the time of the refusal to deliver.'⁴⁷⁴ It can, therefore, be said that the law expects the buyer to take reasonable steps to find substitute goods in a market. The basis of this expectation is the buyer's duty to mitigate the loss, which requires the buyer to act immediately and prevent further loss. Also, the subsection reflects the market price rule.

4.6.3.3. Remoteness of Loss

The buyer is entitled to damages for a loss which is the direct result of the breach of a contract, and it should not, therefore, be too remote. The buyer must prove a causal connection between the loss he suffered and the breach of the contract by the seller.⁴⁷⁵ This rule is established in *Hadley v Baxendale*,⁴⁷⁶ which held that there are two limbs of the remoteness rule. The first limb which is restated by s51(2) was defined in the following terms:

[w]here two parties have made a contract, which one of them has broken, the damages which the other party ought to receive in respect of such breach of contract should be such as may fairly and reasonably be considered either arising naturally, i.e. according to the usual course of things, from such breach of contract itself ...⁴⁷⁷

The second limb establishes that the parties must inform each other at the time of the conclusion

⁴⁷³ Burrows, *Remedies for Torts* (n 461) 314.

⁴⁷⁴ SGA s51(3).

⁴⁷⁵ *Goode on Commercial Law* (n 112) 134.

⁴⁷⁶ *Hadley v Baxendale* (n 110).

⁴⁷⁷ *Ibid.* 342.

of the contract of any special circumstances.⁴⁷⁸ It was therefore stated that the damages ‘would be the amount of injury which would ordinarily follow from a breach of contract under these special circumstances so known and communicated.’⁴⁷⁹

This rule was interpreted by other cases, and which show that while the first limb considers the direct result of the breach,⁴⁸⁰ the second limb covers losses arising under special circumstances which should be known by the parties when they conclude the contract.⁴⁸¹ It is considered that the two limbs of the rule are overlapping with each other and can be seen as one rule.⁴⁸²

In *Victoria Laundry (Windsor) v Newman Industries*, in determining if damages can be recovered, held that the loss that actually results from the breach is the one that was reasonably foreseeable upon the basis of the knowledge held by the parties.⁴⁸³ The court dismissed the damages claim for loss of unusual business considering that is too remote and the defendant did not know about the potential contract which the plaintiff intended to undertake.

Koufos v C. Czarnikow Ltd. took a somewhat different approach when addressing the question of if the loss can be recovered.⁴⁸⁴ It stated that if the defendant or ‘the reasonable man in his position’ could have anticipated that the loss in question may occur from the breach of the contract, the loss can be deemed as within the contemplation of the parties.⁴⁸⁵ This approach was also followed by *Parsons (Livestock) Ltd v Uttley Ingham & Co Ltd* where which Scarman LJ described the role of the court as deciding upon whether the loss ‘may or may not, correspond with fact’ and whether it is reasonable to regard the breaching party was aware of a ‘serious possibility’ of the loss occurred as a result of the breach.⁴⁸⁶

In *Transfield Shipping Inc v Mercator Shipping Inc (The Achilles)*,⁴⁸⁷ the decision is departed from the remoteness rule applied in *Hadley v Baxendale*. The court rejected damages to the plaintiff who suffered loss from making a new charter agreement at a rate lower than he would

⁴⁷⁸ Parker Hood, ‘Remoteness of Damage in Contract Revisited: Balfour Beatty v Scottish Power’ (1996) 1 Edinburgh L. Rev. 127.

⁴⁷⁹ *Hadley v Baxendale* (n 110) 356-357.

⁴⁸⁰ Bridge, *The Sale of Goods* (n 45) 12.21; See *Victoria Laundry (Windsor) v Newman Industries* [1949] 2 KB 528; *Koufos v C Czarnikow Ltd (The Heron II)* [1969] 1 A. C. 350; *Kpohraror v Woolwich Building Society* [1966] C.L.C. 510

⁴⁸¹ Bridge, *The Sale of Goods* (n 45) 12.21; *Monarch Steamship Co Ltd v Karlshamns Oljefabriker* [1949] AC 196

⁴⁸² Burrows, *Remedies for Torts* (n 461) 85.

⁴⁸³ *Victoria Laundry* (n 480) 539. In this case, the plaintiff bought a boiler from the defendant with the aim of extending his business. The plaintiff made a late-delivery, the plaintiff claimed his loss of profits and loss of business based on that they would have entered with another company.

⁴⁸⁴ *The Heron II* (n 480).

⁴⁸⁵ *Ibid* 584.

⁴⁸⁶ [1978] QB 791, 807.

⁴⁸⁷ [2008] UKHL 48.

have made if the charterers had not failed to redeliver the ship on time. The basis of the court's decision was that volatile market conditions do not fall within the contemplation of the parties.

The cases presented above interpret the remoteness rule while applying different levels of 'contemplation of the facts.' Because the remoteness test is regarded as a way of allocating the risk that the parties should bear and determining liability for the loss caused by a breach of the contract,⁴⁸⁸ the yardstick for the loss falling within the knowledge of the breaching party becomes important. If the rule applied by *The Achilleas* is followed, even a loss that arises 'naturally as result of the breach' and satisfies the first limb of *Hadley v Baxendale*, may not fall within the sphere of the breaching party's responsibility and damages for the loss in question will not be awarded.⁴⁸⁹ However, the yardstick applied in *Koufos v C. Czarnikow* seems to avoid the problematic consequences of the formula developed by *The Achilleas*. If it is normal to expect from a reasonable man in the same position as the breaching party to foresee or assume a loss which can be a natural cause of the breach of the contract, the breaching party in question can be held liable for damages even he was not informed of the facts concerning the loss in question. This consideration of a reasonable man brings balance between the breaching party's interest in not being liable for the losses that could not reasonably have been anticipated to occur from the breach and the aggrieved party's interest in recovering from the losses which would not have arisen if the contract would not have been broken.

Based upon the remoteness test in *Victoria Laundry (Windsor) v Newman Industries*, the loss of business or future orders caused by third-party IPRs will not be covered unless the buyer indicated at the time of contracting his intention to resell or the particular agreement he will undertake. However, if the reasonable man test developed under *Koufos Appellant v C. Czarnikow* is followed, when the buyer's normal course of business is resale of the goods, the seller as a reasonable man could have anticipated this loss, and thus, can be liable for damages if the loss results from the breach.

4.6.3.4. The Duty to Mitigate

The buyer should take reasonable steps to minimise the loss in question. This duty to mitigate has three rules. First, the buyer will not be entitled to damages for loss arising from the breach of the contract, if he failed to take reasonable steps to avoid or minimise the loss in question.⁴⁹⁰

⁴⁸⁸ Andrew Robertson, 'The Basis of the Remoteness Rule in Contract' (2008) 28 *Legal Studies* 172. See John Cartwright, 'Remoteness of Damage in Contract and Tort: A Reconsideration' (1996) 55 *The Cambridge Law Journal* 488; Adam Kramer, 'An Agreement-Centred Approach to Remoteness and Contract Damages' in Cohen/McKendrick (eds) (n 69) 249.

⁴⁸⁹ Bridge, *The Sale of Goods* (n 45) 652.

⁴⁹⁰ *McGregor on Damages* (n 454) 9-004; *Benjamin's Sale of Goods* (n 45) 16-052.

In *British Westinghouse Electric and Manufacturing Co. v. Underground Electric Railway Co. of London Ltd.*,⁴⁹¹ it was held that in order to be awarded compensation, the aggrieved party is under a duty to take all reasonable steps to mitigate the loss in question, and this ‘debars him from claiming any part of the damage which is due to his neglect to take such steps.’⁴⁹² Second, if the buyer faced with losses takes reasonable steps to mitigate the loss, and this causes him further loss the buyer can be awarded damages for these losses.⁴⁹³ Third, any benefits that acquired by the buyer as a result of the mitigation will be deducted from the seller’s liability.⁴⁹⁴

The burden of proof that the loss suffered could have been avoided if reasonable steps had been followed falls on the seller.⁴⁹⁵ The steps that need to be taken by the buyer are evaluated within the circumstances of every case.⁴⁹⁶ It is not expected that the buyer will take extraordinary steps. The buyer is only obliged to act in accordance with his ‘ordinary course of business’.⁴⁹⁷ Also, the buyer does not need to take steps (such as delivering the non-conforming goods to his sub-buyers) that could hamper his business reputation such as delivering the non-conforming goods to his sub-buyers.⁴⁹⁸

Regarding the buyer’s duty to mitigate damages when third-party IPRs cause a loss to him, what kind of steps he can take is questionable. In some situations, it may be possible to reach an agreement with the third-party IPRs holder on licensing the IPR that has been infringed. Therefore, the court can examine whether the buyer of the infringing goods has reasonably attempted to approach to and negotiate with the third-party IPR holder in order to fulfil his obligation to mitigate the damages. If it is reasonable to conclude an agreement with the third-party, but if the license fees to be paid by the buyer are excessive, the failure to obtain a license should not lead claiming that the buyer failed to mitigate damages.⁴⁹⁹ In terms of the second rule of mitigation, it can be questioned whether the license fees which are paid by the buyer in order to release the goods from third-party IPRs are losses that result from the breach or are caused by mitigating the loss. When the performance interest is applied, the license fees paid by the buyer can be seen as wasted expenditure which can be claimed as damages. Although

⁴⁹¹ [1912] A.C. 673.

⁴⁹² Ibid 689.

⁴⁹³ *McGregor on Damages* (n 454) 9-005.

⁴⁹⁴ Ibid 9-006; Bridge, *The Sale of Goods* (n 45) 659. See *Fulton Shipping Inc of Panama v Globalia Business Travel SAU (formerly Travelplan SAU) of Spain* [2015] EWCA Civ 1299.

⁴⁹⁵ See *Thai Airways International Public Company Ltd v KI Holdings Co Ltd (formerly known as Koito Industries Ltd)* [2015] EWHC 1250 (Comm).

⁴⁹⁶ Bridge, *The Sale of Goods* (n 45) 661.

⁴⁹⁷ *British Westinghouse* (n 491); *Borealis AB v Geogas Trading SA* [2010] EWHC 2789 (Comm).

⁴⁹⁸ *James Finlay and Company, Limited v N. V. Kwik Hoo Tong Handel Maatschappij* [1929] 1 K.B. 400.

⁴⁹⁹ See Bridge, *The Sale of Goods* (n 45) 665; *Compania Financiera Soleada SA v Hamoor Tanker Corp Inc (The Borag)* [1981] 1 WLR 274.

such licence fees may not be covered by the buyer's expectation interest, it is possible to regard the license fees as the one caused by taking reasonable steps while avoiding a greater loss that could have been occurred.

Other steps taken by the buyer include removing the parts of the goods which infringe the third-party IPRs. If removal releases the goods from the third-party's claims, the buyer can follow this approach. However, it is open to question whether it is reasonable to expect from the buyer to remove the infringing parts if there can be a difference between the price for which he expected to resell and the price at which he actually resold the goods in question. It cannot be possible for the buyer to use or resell the goods as with the infringing parts; thus the goods will be redundant. The buyer's loss in that situation will be greater than the loss on the profit he expected to make. On this basis, the costs of making changes to the goods can be claimed from the seller.

Conversely, it can be asked if purchasing substitute goods in the available market to mitigate the loss can be regarded as a better approach for mitigation rather than removal of the infringing parts of the goods. If the steps taken by the buyer are not cheaper, the question of if the buyer will have been deemed to have failed in his duty to mitigate arises. Damages seek to compensate the buyer, and the duty to mitigate is a way of protecting the buyer's own welfare, which he should have taken into account when the breach occurred.⁵⁰⁰ Thus, if a buyer prefers intentionally a method of mitigation which is more expensive than an alternative, the difference between the actual loss he suffers and what he would have suffered if he had chosen another mitigation method may be deducted from the damages that the seller is liable for.

4.6.3.5. Available Market Rule

SGA s51(3) is applicable to the assessment of damages when there is an 'available market' for the goods in question. If this is the case, the difference between the price the parties contracted for and the price in the available market gives the amount of damages. In order to be able to provide an understanding of the rule, the terms 'available market' and 'market price' need to be examined.

There were different views on the term 'available market.' It was understood as 'a fair market where they could have found a purchaser [...] at some particular place', which was more concerned with the actual place of the market.⁵⁰¹ This view was criticised by *W.L. Thompson*

⁵⁰⁰ Michael Bridge, 'Mitigation of Damages in Contract and the Meaning of Avoidable Loss' (1989) 105 LQR 398, 410.

⁵⁰¹ *Dunkirk Colliery Co. v Lever* (1878) 9 Ch. D 20, 25.

Ltd v Robinson (Gunmakers) Ltd,⁵⁰² and the available market was defined as ‘the situation in the particular trade in the particular area was such that the particular goods could freely be sold.’⁵⁰³ A separate case instead proposed ‘where the goods can only be sold at a fixed retail price.’⁵⁰⁴ The term can be interpreted to mean the market which is available or considered to be available to the buyer that enables him to find the substitute goods immediately at the time he needs to act.⁵⁰⁵

The precise meaning of ‘available market’ in relation to goods attached with IPRs also needs to be discussed. The attributed meaning of the term suggests that substitute goods should be available to the buyer within the market. It needs to be considered whether the substitute goods can also fulfil the buyer’s intent when purchasing them. It is sometimes the case that the buyer can insist on buying particular goods, especially those produced with a certain trademark because of the reputation of and demand for this trademark. A question arises when the buyer has purchased certain goods attached to software with the intention of using them in his factory to produce other goods. If the specific software within the goods is important to the buyer: what will be the substitute goods in this case? Because substitute goods are products that are similar to the contracted goods, as soon as it would be possible to find similar goods that fulfil the same purpose as the contracted goods, it can be considered that there is an available market.

The SGA employs the market price as a yardstick when calculating the damages. When the market price is lower than the contractually agreed price, the buyer’s damages will be based on nominal damages.⁵⁰⁶

Given the fact that in general the law does not concern itself with the buyer’s aims with the goods, which can be used or resold, it can be possible to reach a different sum than the one that can be reached by the application of market price rule if the damages are calculated with reference to what the buyer has done with the goods.⁵⁰⁷ In such cases, the court has calculated the damages according to what the buyer would have done with the goods.⁵⁰⁸

⁵⁰² [1955] Ch. 177.

⁵⁰³ *Ibid* at 188.

⁵⁰⁴ *Charter v Sullivan* [1957] 2 QB.

⁵⁰⁵ *Goode on Commercial Law* (n 112) 414; McKendrick, *Sale of Goods* (n 127) 494.

⁵⁰⁶ *Goode on Commercial Law* (n 112) 128; Burrows, *Remedies for Torts* (n 461).

⁵⁰⁷ McKendrick, *Sale of Goods* (n 127) 492-493.

⁵⁰⁸ *Ibid*. See *R&H Hall Ltd v WH Pim Junr & Co Ltd* (1928) 30 Ll. L. Rep. 159.

4.6.4. Comparison

After the examination in this chapter of the damages rules provided under the CISG and the SGA, it can be said that both legal instruments carry similar concepts while differing in their interpretation and application.

Both of the legal instruments contain the principle of full compensation. However, this principle is limited. The CISG employs the foreseeability test and mitigation rules when measuring the damages; the SGA similarly contains the remoteness test and mitigation rule. It is argued that the foreseeability rule under the CISG is based on the *Hadley v Baxendale* rule, but there are practical differences between these two rules. As discussed above, *Hadley v Baxendale* consists of two limbs. Section 52 reflects one limb by acknowledging that ‘losses arising in the usual course of things’ are recoverable. The CISG requires that damages be ‘the possible consequences of the breach’, while the SGA examines whether it is ‘probable result’. By preferring this phrase, the SGA searches for the loss that is ‘likely to happen’,⁵⁰⁹ which applies a higher yardstick for assessing the occurrence of the loss because the ‘possible result’ test applied by the CISG ‘is not a strict prerequisite requirement’.⁵¹⁰

According to the second limb, the parties must inform each other at the time of the conclusion of the contract of any special circumstances, however this second limb is not included in the SGA. In further cases, ‘the contemplation of the parties’ is applied to test the foreseeability of damages.⁵¹¹ Foreseeability is examined from the perspectives of both parties under the SGA, whereas the CISG puts emphasis on the breaching party’s knowledge. Also, the use of the phrase ‘ought to have known’ refers to a reasonable person in the same situation as the breaching party.⁵¹²

Both the CISG and the SGA require that the buyer, as an aggrieved party, should not remain inactive and then claim for compensation for his loss, and both impose a duty to mitigate the loss. If the buyer fails to take reasonable steps to mitigate the loss under the CISG, damages will be reduced in proportion to the loss which could have been avoided. Likewise, under the SGA, the buyer’s failure to mitigate ‘debars him from claiming any part of the damage which is due to his neglect to take such steps’.⁵¹³ Both legal instruments accept that the buyer is not under a duty to take extraordinary measures to mitigate the loss.

⁵⁰⁹ See the definition of ‘probable’ at Oxford Dictionary.

⁵¹⁰ Vékás (n 386) 160.

⁵¹¹ See *Victoria Laundry* (n 480). It was said ‘something that should have been contemplated by the defendant if he had thought about the breach.’

⁵¹² *Oberster Gerichtshof* (n 389).

⁵¹³ *British Westinghouse* (n 491) 689.

The CISG provides a rule which is specifically for the measure of damages when the contract is avoided, whereas such a distinction is not made in the SGA. In the CISG, a distinction is drawn between the rules for measuring damages in cases of avoidance based on whether the buyer made a substitute transaction. If the buyer contracts for substitute goods after the avoidance, damages are calculated concretely under Article 75. If there is no substitute transaction, the so-called ‘market price’ rule is applied, and damages are evaluated based on ‘the current price’ at the place determined by Article 76. The available market rule is applied by the SGA when measuring damages. However, s51(3) does not perfectly reflect the ‘market price’ rule under Article 76. Even though both legal rules define the market prices as that of ‘the same kind of goods’ sold ‘within the same kind of trade at a certain circumstances’,⁵¹⁴ the SGA suggests the ‘fixed retail price’ as the market price,⁵¹⁵ whereas the CISG does not search for a fixed price.⁵¹⁶ The SGA employs the market price as a yardstick when calculating the damages. When the market price is lower than the contractually agreed price, the buyer’s damages will be nominal.⁵¹⁷ By contrast, the CISG applies the market price rule if there is a current price of the goods when the contract is avoided and the buyer has not bought a substitute. If there is no current price, damages are calculated based on Article 74.

The CISG Article 74 explicitly acknowledges the loss of profit as a recoverable loss.⁵¹⁸ Although within the wording of the SGA there is no reference to this type of loss, under the rule developed by *Hadley v Baxendale*,⁵¹⁹ loss of profit as consequential damage may be recoverable if such damage is a ‘probable result’ of the breach and if it is in the knowledge of a reasonable person.⁵²⁰

Neither the CISG nor the SGA allows parties to claim for damages based on non-pecuniary losses.⁵²¹ However, in terms of loss of reputation or loss of goodwill, it is acknowledged that this loss is recoverable under the CISG by Article 74.⁵²² Although English law does not cover damages for non-pecuniary loss as a principle, English courts have begun to recognise the recovery of non-pecuniary loss, recovery is however only available in certain circumstances⁵²³

⁵¹⁴ For the CISG Schwenzer, ‘Article 76’ (n 432) 1098-1099. For the SGA, *W.L. Thompson Ltd* (n 502) at 188.

⁵¹⁵ *Charter v Sullivan* (n 504).

⁵¹⁶ Enderlein/Maskow (n 39) 305.

⁵¹⁷ *Goode on Commercial Law* (n 112) 128; Burrows, *Remedies for Torts* (n 461).

⁵¹⁸ Damon Schwartz (n 385).

⁵¹⁹ *Hadley v Baxendale* (n 110).

⁵²⁰ See Thomas A. Diamond and Howard Foss, ‘Consequential Damages for Commercial Loss: An Alternative to *Hadley v. Baxendale*’ (1994) 63 *Fordham L. Rev.* 665; Murphey (n 392).

⁵²¹ See Schlechtriem, ‘Non-Material Damages’ (n 375) 89; *McGregor on Damages* (n 454) 5-016, 5-022.

⁵²² CISG Advisory Council Opinion No.6 (n 352) note 7.1.

⁵²³ Rowan (n 106) 121-122.

4.7. Conclusion

The examination of remedies undertaken in this chapter reveals that the CISG favours keeping the contract alive and imposes strict prerequisites for avoiding the contract, whereas, the SGA puts the emphasis on compensating the buyer in monetary terms when there is a breach of the contract. The main difference between these instruments is to the availability of specific performances. Although the UNCITRAL Digest explores that there is a limited number of cases concerned specific performance, though the parties generally prefer other remedies,⁵²⁴ the practical consequences of application and availability of this remedies to IPRs cases should also be taken into account. Before examining the IPRs issues and the available remedies in terms of the contract, I shall explore the remedies of these instruments.

Based on the rules for avoidance, it can be concluded that both of the legal instrument seek for a degree of seriousness. The CISG imposes a high threshold for avoidance considering the requirement of fundamental breach. Although the SGA also seeks for a degree of seriousness of the breach, the SGA itself classifies the statutorily implied terms which are relevant when third-party IPRs are at issue as either a condition (s12(1)) or a warranty (s12(2)), there is generally no need to investigate how fundamental the breach is. The breach of a condition which goes to the root of the contract leads to the termination without examining whether the consequence of its breach is severe or slight. Because of the limitation imposed by s15A according to which the slightest breach of conditions treated as a breach of warranty does not cover s12(1).

However, a nuanced comparison of the two approaches reveals that the difference is not as substantively different as the forms would suggest. One could say that the different classification of s12(1) and s12(2) shows that the SGA also requires the breach to be fundamental, but determines itself when a breach is fundamental, rather than leaving this to the courts as the CISG does. Moreover, as we saw in section 4.2.3, beyond this the contrast is less-sharp: contractual terms agreed by the parties only give rise to a right to terminate when the term itself is fundamental by virtue of going to the root of the contract (conditions) or when the consequences of the breach are sufficiently fundamental (innominate terms). Also, the CISG requires restitution of the goods delivered in the same condition as they were received, and failure of this restitution duty causes the buyer loss of the right to avoid the contract, whereas the SGA does not impose such duty on the buyer.

⁵²⁴ UNCITRAL Digest 2016 (n 74) 221.

The problem of the application of avoidance under the CISG is to the difficulty of determining whether third-party IPRs issues fall under the fundamental breach. The fundamental breach rule is vague and unclear, since establishing of fundamental breach for any breach is problematic, determining if Article 42 gives rise to fundamental breach is more complicated. Because Article 42 aims to limit the seller's liability contradicts to allowing the buyer right to avoid the contract. On the other hand, third-party IPRs which result in the seller's breach of s12(1) enables the buyer right to terminate the contract under the SGA. For a buyer who would like to end the contractual relationship due to third-party IPRs over the goods he purchased, can easily apply his right under the SGA.

With regard to the analysis of the damages, it can be concluded that both provisions under the CISG and the SGA are generally similar. Although there are similarities in the application of the limitation of damages, overall there is no significant difference between these instruments.

The overall analysis of the remedial provisions under these instruments is provided, but the further examination is required in order to find an answer for the question of which instrument provides 'sufficient' protection to the buyer when third-party arises. Considering this aim, the IP law remedies which will be applied to the buyer due to the infringements of IPRs are of significance for the analysis. Throughout this chapter, the possibility of encountering different IP remedies was taken into account. It has been noted that that monetary remedies and non-monetary remedies, including injunctions, delivery up, seizure or even the destruction of the infringing products are available to protect the interest of the IPRs owners. Especially the non-monetary remedies which stop the buyer from selling the infringing products are of practical importance.

When third-party IPRs holder can enforce these remedies, he is free to decide either to litigate or to settle the case. It has been argued that IPRs holders prefer not to bear high litigation costs, wait for a decision for a long period of time, or engage in a prolonged struggle that may eventually produce affirmative evidence of his actual damages.⁵²⁵ Lemley clarifies that 'even a high settlement agreement in the eve of trial may confer less economic value to the owner than a lesser settlement earlier in the litigation process.'⁵²⁶ In light of this tendency in IP law practice, a buyer of goods which infringe third-party IPRs can also seek to reach an agreement with the right holder through settlement after the right holder contacts him and asserts his rights

⁵²⁵ Kevin M. Lemley, 'I'll Make Him an Offer He Can't Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes' (2004) 37 Akron L. Rev. 287, 302-304.

⁵²⁶ Ibid. 312. Similarly Andrew L. Milam, 'Pleading Patent Infringement: Res IPSA Loquitur as a Guide' (2017) 59 Wm. & Mary L. Rev. 301, 303. He argued that 'cost of early settlement is much lower than defending a patent suit and its merits.'

over the goods. The possibility of settlements is also of significance considering the long periods to obtain a judgment from the courts. An empirical analysis conducted in various European jurisdictions illustrates that the average period for obtaining a judgement for patent litigation is 24-36 months generally,⁵²⁷ but it takes up to 42 months in the USA.⁵²⁸

From the contractual perspective, the question of whether specific performance is preferable clearly deserves closer attention. In terms of specific performance of contracts, which is based on the subjective value of the promise, when the subjective value exceeds the objective value of the performance and it is not straightforward to obtain a substitute at the same price as its objective value, it is plausible to agree with Friedmann who argues that specific performance is ‘more advantageous to the claimant’.⁵²⁹ Similarly, Shavell argues that if the contract is for products, expectation damages should be preferred considering the production costs, the cost of renegotiation and wasteful expenditure; however, if the contract is for the conveyance of property, specific performance should be chosen.⁵³⁰ It is an interesting argument in the context of this thesis because the presence of third-party IPRs can indeed prevent the buyer from acquiring a good title.⁵³¹

However, specific performance is allowed in the SGA when damages are inadequate. When specific performance under the SGA was examined above, it argued that where the goods subject to IPRs carry ‘special value and interest’ for the buyer, or where a sub-buyer who is ready to buy the goods exists, or even when the goods can be substituted, and the time and effort to search within the market cause excessive loss to the buyer, damages would be considered insufficient, and thus specific performance would be available for the buyer.⁵³² If the buyer is liable to deliver the goods to his sub-buyers within a certain time, after which it would be burdensome to search for a substitute, or his reputation to his sub-buyers would be destroyed, it would also be preferable to obtain specific performance; especially if it is possible to acquire a license from the third-party IPRs holder.

⁵²⁷ Stuart JH Graham and Nicolas Van Zeebroeck, ‘Comparing Patent Litigation Across Europe: a First Look’ (2013) 17 *Stan. Tech. L. Rev.* 655, see Table 1. In UK, Italy and Belgium the period to obtain judgement lasts 24-36 months, it is 18-24 months in France. The Netherlands serves the quickest period for judgement by 12 months.

⁵²⁸ *Ibid.*

⁵²⁹ Daniel Friedmann, ‘Economic Aspects of Damages and Specific Performance’ in Saidov/Cunnington (eds) (n 343) 90.

⁵³⁰ Steven Shavell, ‘Specific Performance versus Damages for Breach of Contract: An Economic Analysis’ (2006) 84 *Tex. L. Rev.* 831.

⁵³¹ See SGA s12(1).

⁵³² See ‘4.3.3.1./ 1. Inadequacy of Damages’.

Those authors who are not in favour of specific performance base their arguments on the difficulties and the costs of renegotiations, delay and other costs.⁵³³ However, acquiring all the information necessary to determine the value of the performance is not easy, and this gives rise to a risk of under-compensating the buyer; moreover, the calculation of damages measure does not take into account the buyer's pre-contractual costs.⁵³⁴ It can be argued that damages, therefore, cannot always ensure that the injured party is made whole, especially in consideration of its loss of reputation. Importantly, as was pointed out in 4.3.3.1 above, the limitations on the recoverable damages resulting from the principles of remotes and mitigation are not treated by English law as factors which render damages inadequate so as to open up the door to specific performance. It is not easy to rigorously measure or evaluate the adverse effect of the buyer's breach of his obligations to his sub-buyers because of the seller's breach of the main contract. In such cases, if the seller can negotiate with the third-party IPR holder regarding their future relationships,⁵³⁵ or can easily provide goods which do not cause the infringement, it is better to require specific performance.⁵³⁶ For these reasons, the approach of the CISG is preferable to that of English law.

Despite this suggestion that specific performance is a preferable remedy, the rules of damages under the CISG and the SGA must be analysed in terms of the type of loss which can be recovered under these instruments. As was shown above, the damages rules under both legal instruments are akin to each other, even though there are some practical differences in their application. Both can fulfil the buyer's expectation interests.

In terms of the rules concerning avoidance of the contract under the two instruments examined, it is concluded that even though both instruments makes available avoidance when the breach has a degree of seriousness, the unclarity of whether the breach of Article 42 constitute a fundamental breach, so the buyer enables to apply for the avoidance makes the CISG less preferable comparing the SGA.

⁵³³ See Melvin A. Eisenberg, 'Actual and Virtual Specific Performance, the Theory of Efficient Breach, and the Indifference Principle in Contract Law' (2005) 93 CLR 975; Shavell (n 530); Tareq Al-Tawil, 'English Contract Law and the Efficient Breach Theory: Can They Co-Exist?' (2015) 22 Maastricht Journal of European and Comparative Law 396. Cf. Alan Schwartz, 'The Case for Specific Performance' (1979) 89 The Yale Law Journal 271.

⁵³⁴ Anthony T. Kronman, 'Specific Performance' (1978) 45 The University Chicago Law Review 351; Alan Schwartz (n 533).

⁵³⁵ See *CD media case* (n 83). Also, it is possible that the seller and the third-party IPRs holder has a license agreement to use or sell the product in certain countries, however, not in the countries the buyer wishes to use or resell the goods, the seller can obtain the licence covering additional countries.

⁵³⁶ See Marta Cenini and Francesco Parisi, 'An Economic Analysis of the CISG' in Janssen and Meyer (eds) *CISG Methodolgy* (Sellier 2009) 157; Francesco Parisi, Barbara Luppi, and Vincy Fon, 'Optimal Remedies for Bilateral Contracts' (2011) 40 The Journal of Legal Studies 245.

In conclusion, the availability of more extensive specific performance under the CISG may be considered preferable and more suitable for breaches caused by third-party IPR claims over the goods, enabling the buyer to fulfil his main aim in undertaking a sales contract. On the other hand, it is highly possible that the buyer can be faced with long-lasting litigation which prevents him from using or reselling the goods. In that case, avoidance can enable the buyer to continue his business. In that situation, the SGA serves the buyer better through its rules for the termination of the contract. In terms of damages, the CISG is more explicit about what can be recovered, but there is no meaningful difference.

CHAPTER FIVE: CONCLUSION

5.1. General

This thesis comparatively examined the rules that relate to the seller's duty to deliver the goods free from any third-party IPRs under the CISG Article 42 and the SGA s12. It analyses the extent to which the seller is liable to the buyer when such goods are subject to IPRs, and seeks to identify the legal instruments that provide sufficient remedies to the buyer. Thus not only the level of protection offered by the remedies under these instruments but also the response and sufficiency that they provide when eliminating the losses that arise from the application of IP law remedies have been assessed.

5.2. Overview of the Research Results

The second chapter of the thesis is developed on the basis of the relationship between intangible creations and tangible materials to which IPRs are integrated. The interaction between the IPRs and tangible materials becomes more apparent with the advent of technology; thus the volume of trade in IP-related goods are increasing. Therefore, the second chapter aimed to establish the relevance and significance of IPRs in the sale of goods law. Because in a contractual relationship, the seller is obliged to provide that the buyer can enjoy the goods without any disturbance, however, if a third-party IPR over the goods exists, the IPR holder can prevent the dealing with the goods in question based on the remedies available under IP law. In such situations, the effect of the IPRs over the goods which the buyer purchases open to question. In order to reveal this effect, this chapter intended to illustrate the current and potential risk of IPRs infringement by the buyer of a sale of goods agreement.

Initially, the nature of IP law was introduced as a basis of the arguments, then various possible ways of infringement through sales of goods were explained by referring to cases which were given as an example of the infringements. These contributions were intended to highlight the practical consequences of the existing relationship between the IP law and the sale of goods. Along with the possible ways of infringing third-party IPRs due to a sale of goods, it is also asked whether the territoriality of IP law, enforcement issues and the doctrine of exhaustion are tools that prevent or the decrease the occurrence of third-party IPRs infringements by a sale of goods.

Considering the territoriality, the fact that a subject matter may not be subject of IPRs in one country, but it may be protected in another country; hence if the buyer enters these goods to the countries where there is an IPR exist over the goods, he can encounter with infringement

claims. It is obvious that the territoriality does not prevent the occurrence of infringement related to the goods that the buyer purchased. In order to enforce these IPRs, harmonised PIL rules and international agreements for the protection and enforcement of IPRs are suggested.

The primary concern was whether the doctrine of exhaustion restricts the occurrence of third-party IPRs infringement. This doctrine establishes that the exclusive rights of IPR holders' are exhausted after the authorised first sale of the goods that are subject to IPRs.¹ The extent to which the doctrine of exhaustion is applied varies among countries since three different regimes are followed with respect to the approach to parallel importing. Therefore, that the application of the doctrine of exhaustion is limited by some conditions, which, if not satisfied, results in infringements of IPRs. In addition the failure to meet requirements triggers exhaustion, and this is established as a ground of infringement caused by the sale of goods, also the application of the territorial doctrine of exhaustion, which only allows the resale of goods within the territory without authorisation of the right holder, does not decrease the possibility that IPRs infringement claims will be encountered as a result of goods being sold.

Taking into account the fact that there is a risk of infringing third-party IPRs by a sale of goods, and that the buyer's commercial activities can be restricted as a consequence, it has been investigated to establish which party to the sales agreement will bear this result. With the intention of engaging with this question, this thesis examined the CISG Article 42 and the SGA s12, which impose liability on the seller when the buyer encounters a third-party IPR or claim over the goods he bought.

The main questions examined in the third chapter were whether the buyer can claim breach of the contract, and if so, under which conditions and to what extent the seller is held liable. The CISG Article 42 and the SGA s12 were analysed in an attempt to answer these questions, and recommendations were proposed in order to address the problems that arise during the application of the rules because of their language which gives rise to different interpretations and complex issues.

A comparison of these instruments clearly demonstrated that the CISG proposes a more limited liability than the SGA. It was noted that the CISG restricts the liability to the specific territories, seller's knowledge and relevant time. In attempting to provide a more detailed and precise rule that governs third-party IPRs issues, it is vague with regard both to the determination of the

¹ Amelia Rinehart, 'Contracting Patents: A Modern Patent Exhaustion Doctrine' (2010) 23 *Harvard Journal of Law & Technology* 483, 490-492; Gül Okutan, 'Exhaustion of Intellectual Property Rights: A Non-Tariff Barrier to International Trade?' (1996) 30 *Annales de la Faculté de Droit d'Istanbul* 110.

territory and the yardstick applied to the seller's knowledge. Although the SGA does not specifically refer to IPRs, the seller is liable for third-party IPRs over the goods either on the ground that he does not 'have a right to sell', or fails to deliver the goods 'free from any charge or encumbrances, or to provide 'enjoyment of quiet possession.' The relevant time set for quiet possession is completely different from the one set under Article 42. Whereas Article 42 does not cover any third-party IPRs raised after the conclusion of the contract, the SGA covers both the IPRs existing at the time of conclusion of the contract, and IPRs raised after the delivery. There is no protection for the CISG buyer even for third-party IPRs guaranteed after the contract was made, while the SGA covers post-sale infringement claims.

Chapter Four examined the remedies available to the buyer under the CISG and the SGA. The preference of the right to require performance as a first remedy for the buyers suggests that the CISG gives importance of the preservation of the contract and treats avoidance of the contract as the last resort.² Articles 46(2) (substitute delivery), Article 46(3) (repair) and 50 (price reduction) concern goods that 'do not conform with the contract' as defined by Article 35 of the CISG.³ This wording establishes that these articles only cover cases that arise under Article 35 and that cases falling under Article 41 and 42 are excluded. Under English law, the remedies available for the buyer when a seller commits a breach of contract are to claim damages for his losses, reject the goods and terminate the contract under certain conditions, claim specific performance, and claim for loss of profit or recover the money paid.

Firstly, the buyer's right to require performance was analysed. The SGA grants specific performance only in exceptional cases. Because it is an exceptional remedy, s52 subjects it to limitations which are difficult to reconcile. The SGA s52 treats the inadequacy of damages as the most significant limitation, and also requires the sale of certain types of goods (specific and ascertained) in order to decree specific performance. The CISG does not examine whether damages are adequate or not. However, it limits the application of the remedy to cases where the buyer does not claim any inconsistent remedy. Article 28 also establishes that performance

² See Harry M. Flechtner, 'Buyers' Remedies in General and Buyers' Performance-Oriented Remedies' (2005) 25 *JL & Com.* 339; Peter Huber, 'CISG—The Structure of Remedies' [2007] *Rabels Zeitschrift für ausländisches und internationales Privatrecht* 13, See *Bundesgerichtshof* (Germany) 3 April 1996 (*Cobalt sulphate case*) (CLOUT no. 171). The court states that 'avoidance of contract is only supposed to be the [buyer]'s last resort to react to a breach of contract.'

³ According to Art 35, the goods must be in the conformity with the contract in their quality, quantity and description or packaging. The goods must be fit for the purposes which are either ordinary usage of the goods of the same description or expressly or impliedly made known to the seller, and the goods must carry the qualities of the sample or model presented by the seller to the buyer.

can only be granted in accordance with the availability of the same remedies within a domestic court of the forum.

Secondly, the buyer's right to fix an additional time under the CISG was examined. There is no similar rule under the SGA. This remedy is generally applied along with the buyer's right to require performance. As a consequence, if the seller fails to perform his obligation within the additional time fixed by the buyer, it is possible to avoid the contract.

Thirdly, avoidance under the CISG and termination under the SGA were analysed alongside the relevant rules. When the relevant rules of the CISG and the SGA are examined, it is noticed that both instruments seek a degree of seriousness of the breach. The CISG only allows right to avoid the contract when the breach constitutes a fundamental breach. Nevertheless, Article 25 which establishes fundamental breach is vague and establishing fundamental breach is complex. Under the SGA, despite that allowing the buyer to terminate the contract when an implied condition is breached, this rule is limited to s15A according to which if the consequences of the breach are so slight, the aggrieved party does not apply for termination. However, s12(1) which is the condition relating to title to sell is not covered under s15A; thus, the limitation on the right to terminate under s15A does not apply when s12(1) is breached. In this situation, it is considerably easy to claim right to terminate under the SGA when third-party IPRs arise. There is a difference between the CISG and the SGA regarding their restitution rules. The CISG compels the parties to return what they have received under the contract. In particular, not returning the goods 'substantially in the condition in which it received them' has a detrimental effect, which means a failure of returning the goods causes to lose the right to avoid the contract.⁴

The damages provisions under the CISG and the SGA were examined in the final stage of the analysis. This examination brought out clear conceptual resemblances between both legal instruments, along with apparent differences in their interpretation and application.

5.3. The Scope of the Seller's Liability

While examining the CISG Article 42, it was seen that there were two remarkable arguments related to the application of the article. One is that Article 42 only proposes a 'rudimentary regime',⁵ and the other suggesting the application of rules of domestic law instead of Article 42 with the belief that domestic laws offer similar solutions for third-party IPRs; thus these are

⁴ The CISG Article 82.

⁵ Stefan Kröll, 'Article 42' in Stefan Kröll, Loukas Mistelis and Maria del Pilar Perales Viscasillas (eds) *UN Convention on Contracts for the International Sale of Goods (CISG)* (Hart 2011) 649.

carried ‘a certain degree of uniformity.’⁶ The examination is made bearing in mind this criticism.

The seller’s liability under the CISG is subjected to certain limitations taking account of the international commercial content. As a consequence, the liability needs to be within the limits of the seller’s ability to take steps and solve any problems relating to the goods resulting from third-party IPRs. Although there are limitations on the seller’s liability, a third-party’s existing rights or frivolous claims can give rise to the seller’s liability; furthermore, it is not even necessary that the third-party should have been raised its claim. The CISG determines liability regarding the time of the delivery. Any third-party IPRs that become valid or are granted after the delivery has been made does not fall within the scope of the seller’s liability.

The SGA does not impose restrictions on the seller’s liability. Because it is a national law instrument, there is no need to determine the territories where the seller’s liability arises. The SGA imposes strict liability on the seller regardless of his knowledge or even awareness of the problem. The SGA sets different times for establishing liability. The most significant issue relating to the time of liability is that the seller can, subject to s12(2)(b), be held liable for third-party IPRs granted after the delivery.

Comparing with the SGA, the CISG provides more limited liability than the SGA based on the limitations imposed. Also, this conclusion can be reached with consideration of the difference between the SGA and the CISG on the relevant times for the occurrence of liability, because a buyer can claim that the seller breached the implied warranty under the SGA of the buyer’s enjoyment of quiet possession on the basis of third-party IPRs granted after delivery. However, the seller’s liability in this situation is limited to only damages. Under the CISG, extending the liability for IPR which comes to existence after the time of delivery is not available.

This limited liability can be considered that the CISG offers a ‘rudimentary regime’, however, when it is considered that the CISG applies the ‘international’ sales contracts, it can be understood that why the article imposes these limitations. As was explained in Chapter Two, the territorial character of IP law, it is difficult to foresee third-party IPRs worldwide. Regarding this, it would have destroyed the balance between the parties interests if the seller would be liable to deliver the goods free from third-party IPRs in all the countries. In addition to the territoriality, the registration is not required to being granted for some types of IPRs. Since the seller cannot search whether any IPRs exists over the goods or there is a risk of

⁶ Thomas M. Beline, ‘Legal Defect Protected by Article 42 of the CISG: A Wolf in Sheep’s Clothing’ (2007) 7 University of Pittsburgh Journal of Technology Law & Policy 1, 5.

encountering with IPRs claims, it would not have been expected to impose strict liability to the seller under Article 42. When these reasons are considered, it is also unreasonable to expand the scope of the liability under the CISG to the IPRs which are granted after the time of delivery. On the other hand, the CISG seller can solve the IPR issues between the time of the conclusion of the contract and the time of the delivery, whereas this is not available under the SGA once the property has been transferred.⁷

It is accepted that the wording of the article is problematic, which also can be seen as a reason for being a ‘rudimentary regime’; nonetheless, this thesis proposes the solutions and offers a clear understanding of the phrases, which can be used to assess IPRs problems under the CISG. Regarding the possibility of the development of case law, a room for improvement is available for Article 42.

When the attention is given on the view that domestic law is preferable for third-party IPRs issues instead of the application of Article 42, this concern is examined based on the SGA s12. It is believed that English law acknowledges the needs of commerce and the development of case law also provides the consistency and clarity.⁸ It is also commonly preferred choice of law.⁹ Based on these facts, whether the SGA is beneficial for the IPRs issues arising under the sales law is questioned. Unfortunately, it is seen that the lack of specific reference to IPRs problems within the SGA causes the difficulty of reaching a definite answer if s12 applies to the IPRs issues. What amounts to the right to sell or charge or encumbrances within the meaning of IPRs has not been adequately addressed. Although the courts attempted to provide an answer for these, the existence of three cases to which s12 applied does not enhance the application of s12 and the possible problems of IPRs issues.

Both the CISG and the SGA accept that the seller is excluded from the liability under Article 42 and s12 based on the buyer’s knowledge of third-party IPRs, however, the assessment of the knowledge bears another question. Although the CISG’s wording brings some interpretation issues on the threshold of the knowledge, with the help of literature and case law an answer is provided. However, the assessment of or proving the buyer’s knowledge under the SGA is open to questions.

⁷ Janet Ulph, ‘Conflicts of title and the Obligations of the Seller’ in Ewan McKendrick (eds) *Sale of Goods* (LLP 2000) 271.

⁸ See Qi Zhou, ‘The CISG and English Law: An Unfair Competition’ in Larry DiMatteo (eds) *International Sales Law A Global Challenge* (CUP 2014) 669; Michael Bridge, ‘The UK Sale of Goods Act, the CISG and the UNIDROIT Principles’ in Peter Sarcevic and Paul Volken (eds) *The International Sale of Goods Revisited* (Kluwer Law International 2001) 115.

⁹ Gilles Cuniberti, ‘The International Market for Contracts: The Most Attractive Contract Laws’ (2014) 34 *Nw. J. Int’l L. & Bus.* 455.

The SGA does not cover the claims within the scope of the liability or not extend the liability to the sub-buyers. Nevertheless, availability of applying the seller's liability without waiting for resolving the exact nature of the claim is an important tool considering the international sales agreement. Because waiting until the claim is approved as being valid by the court may cause further problems, however, responding to the problem quickly with the help the seller's knowledge can prevent causing any or further losses.

Regarding these issues, it can be concluded that domestic law, even the one regarded as responding the commercial needs, do not properly reflects the problems arising from IPRs. Therefore, it is not easy to prefer domestic law solutions for third-party IPRs issues considering the lack of specific considerations of IPR issues within its law.

5.4. Evaluation of Remedies

This thesis examines the seller's liability for third-party IPRs with the aim of identifying which of the legal instrument analysed in this thesis provides sufficient protection to the buyer. As it is set out in the methodology chapter,¹⁰ sufficiency is examined with reference to the capacity that contractual remedies have to eliminate the third-parties' IPRs over the goods and to recover any loss caused by these IPRs that resulted as the seller's breach. In drawing appropriate conclusions, the discussion refers to the fourth chapter, IP law and the remedies that can be claimed against the buyer of infringing goods will, therefore, be considered. Application of these remedies against the buyer illustrates the losses that the buyer suffers and also the establishes the scope of the seller's remedial obligations.

Because the holder of IPRs has an exclusive right to enjoy the rights granted to him, IP law grants the right holder various remedies such as injunction, deliver up, destruction, seizure, damages in respect of infringement and so on.¹¹ Injunctions appear as a crucial remedy available to the right holder as, through its application, the right holder can stop the infringing activities.¹² A US court highlighted the importance and relation of the injunction with the property nature of IPRs by stating that "Because the 'right to exclude recognised in a patent is but the essence of the concept of property' the general rule is that a permanent injunction will

¹⁰ See '1.6.1.Determining Sufficiency.'

¹¹ See TRIPS Agreement Articles 42-48; Terence P. Ross, 'Remedies' in Rochelle Dreyfuss and Justine Pila (eds) *The Oxford Handbook of Intellectual Property Law* (OUP 2017) 664; See Sir Duncan Mackenzie Kerly, *Kerly's law of Trade Marks and Trade names* (16th ed, Sweet & Maxwell 2017); Walter Arthur Copinger, E. P. Skone James, *Copinger and Skone James on Copyright* (16th Ed, Sweet Maxwell 2012;., *Terrel on the Law of Patents* (18th Ed, Sweet and Maxwell 2017).

¹² See Robert Lundie-Smith and Gary Moss, 'Bard v Gore: to Injunct, or not to Injunct, What is the Question? Is it Right to Reward an Infringer for Successfully Exploiting a Patent?' (2013) 8 JIPLP 359; Eric R Claeys, 'The Conceptual Relation Between IP Rights and Infringement Remedies' (2014) 22 Geo. Mason L. Rev. 825.

issue once infringement and validity have been adjudged.”¹³ However, there is generally certain condition such as inadequacy of damages, which should be fulfilled to be able to grant an injunction. In terms of the economic viability, injunctions are preferred when the transaction cost is low, or the cost which will be incurred by the courts to obtain information in order to estimate the value of damages is high.¹⁴ However, injunctions are the most preferred remedy under IP law protection according to empirical studies.¹⁵ When the technology-based sectors are considered, the grant rate of injunction reaches almost 100% in the area of biotechnology and pharmaceuticals, even the rate for the software patents look comparable low, as in this area it reaches 53% which can be accepted as a high level of grant.¹⁶ Given that, there is a significant risk for the buyer of infringing goods to encounter with injunctions granted in favour of the third-party right holder.

If the buyer encounters an injunction that restricts his resale or use of the goods in question, this raises the question of how the contractual remedies available under contract law will help to recover him from the losses he suffers as a result of being deprived of the goods. Which contractual remedy can be acknowledged as a viable tool to overcome these problems was considered in the previous chapters of this thesis.

There is a tendency to prefer settlement agreements to litigation in IP disputes for the reasons that it enables the parties to avoid high litigation costs, or long drawn-out litigation, and the difficulty of establishing the actual loss suffered.¹⁷ Therefore, it is highly likely that the buyer and third-party IPRs holder would reach a settlement agreement. Consequently, in Chapter 4, I argued that when the settlement is available for the IPRs infringement issues, the buyer who is faced with these infringement problems can, in limited specific circumstances, require the seller to perform his obligation by way of obtaining a compulsory licence from the right

¹³ *MercExchange, L.L.C. v eBay, Inc.*, 401 F.3d 1323 (Fed. Cir. 2005).

¹⁴ Anthony Ogus and Louis Visscher, ‘A Law and Economics Perspective on Injunctive Relief’ (2010) 17 *Maastricht Journal of European and Comparative Law* 32, 39.

¹⁵ Thomas F. Cotter and John M. Golden, ‘Empirical Studies Relating to Patents-Remedies’ [2015] University of Minnesota Law School, Legal Studies Research Paper Series Research Paper No.15-31 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2665680> accessed 23 November 2018; Kirti Gupta and Jay P Kesan, ‘Studying the Impact of eBay on Injunctive Relief in Patent Cases’ (2015) University of Illinois College of Law Legal Studies Research Paper No:17-03 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2629399##> accessed 23 November 2018; Stuart JH Graham and Nicolas Van Zeebroeck, ‘Comparing Patent Litigation Across Europe: a First Look’ (2013) 17 *Stan. Tech. L. Rev.* 655.

¹⁶ Christopher B. Seaman, ‘Permanent Injunctions in Patent Litigation After eBay: An Empirical Study’ (2015) 101 *Iowa L. Rev.* 1949, see Figure 2 at 1984.

¹⁷ Kevin M. Lemley, ‘I’ll Make Him an Offer He Can’t Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes’ (2004) 37 *Akron L. Rev.* 287; Graham and Van Zeebroeck (n 15) see Table 1.

holder.¹⁸ This possibility is particularly relevant in respect of the CISG, which more readily allows specific performance than the CISG.

Conversely, because that counterfeit goods, which currently account for 2.5% of world trade,¹⁹ are a growing market, the buyer can be dealing in such goods without knowing the true nature of the goods. As a consequence, the buyer of counterfeit goods is potentially confronted by a range of measures that are intended to prevent counterfeiting, including seizure and/or destruction of goods or with litigation.²⁰ When the goods are destroyed, the buyer may wish to claim avoidance of the contract in addition to the damages. With regard to avoidance, it can be argued that the SGA is preferable for the buyer who does not want to be bound by the contract. However, it should not be forgotten that the CISG's underlying objective is to preserve the contract; thus, avoidance is regarded as 'the hardest sword that a party to a sales contract can draw if the other party has breached the contract.'²¹ On the other hand, I have argued that:

'When a third party prevents the buyer from use or resale of the goods in question, it can be accepted that the buyer's contractual expectations are hampered. In that case, not only the third party's existing IPRs, but also claims to them can cause such substantial deprivation due to the lengthy litigation process.'²²

For this reason, the availability of avoidance for the buyer should be increased. At least then the CISG on avoidance may compete with the SGA on this point.

When the monetary losses of the buyer are considered, the damage rules of each legal instruments are found 'broadly similar.'²³ In my view, either instrument can be used to recover the buyer's monetary losses that have arisen as a consequence of the seller's breach.

As a consequence of the comparative analysis in between these legal instruments and bearing in mind the IP law remedies which can be applied against to the buyer, specific performance

¹⁸ See '4.3.2.2' and '4.7.'

¹⁹ See OECD/EUIPO (2016), *Trade in Counterfeit and Pirated Goods: Mapping the Economic Impact* (OECD Publishing, 2016), Frontier Economics, 'The Economic Impacts Of Counterfeiting and Piracy' (Commission Report International Chamber of Commerce, Business Action to Stop Counterfeiting and Piracy (BASCAP) and International Trademark Association (INTA), 2017) <https://www.inta.org/Communications/Documents/2017_Frontier_Report.pdf> accessed 30 November 2018, EUIPO; 'Synthesis Report on IPR Infringement' (European Union Intellectual Property Office, 2018) <https://euiipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/docs/Full%20Report/Full%20Synthesis%20Report%20EN.pdf> accessed 25 November 2018.

²⁰ Ibid., Report on EU Customs Enforcement of Intellectual Property Rights Results at the EU Border 2016 (European Commission, 2017) <https://ec.europa.eu/taxation_customs/sites/taxation/files/report_on_eu_customs_enforcement_of_ipr_at_the_border_2017.pdf> accessed 25 November 2018; 2017 Situation Report on Counterfeiting and Piracy on the European Union (EUROPOL and EUIPO, 2017).

²¹ Ulrich Magnus, 'The Remedy of Avoidance of Contract under CISG -- General Remarks and Special Cases' (2005-2006) 25 JLC 423.

²² See Chapter '4.5.2.1./2.' Establishing Fundamental Breach for Article 42'.

²³ See '4.6.3. Under the SGA.'

tends to be better enabling the buyer to recover from third-party IPRs issues. In the fourth chapter, a reference made to economic analysis of the remedies, which shows that specific performance is ‘more advantageous to the claimant.’²⁴ Specific performance is deemed the efficient remedy because of the difficulty of determining the damages, and because the transaction costs to conclude a new sales agreement is high in most situations.²⁵ Hence, the availability of specific performance under the CISG creates a further difference and I argued in Chapter Four that ‘the availability of and possibility to claim specific performance under the CISG may be claimed as more preferable and suitable for third-party IPRs claims over the goods, thus the buyer can fulfil his main aim behind undertaking a sales contract.’²⁶ This argument can also be based on both IPR holder’s available remedies under IP law, and the solutions can be employed by the infringer (in our case the buyer) such as settlement. When these are considered, it can be said that the CISG provides sufficient protection to the buyer.

5.5. Suggestions for Further Development

The examination of the scope of the seller’s liability for third-party IPRs over the goods has revealed that the CISG, by virtue of the territorial limitations and knowledge requirements, provides more limited liability than the SGA. Also, under the CISG is restricted due to the time requirement for the existence of IPRs, which is at the time of the conclusion of the contract. The SGA covers not only the IPRs which exist at the time of conclusion of the contract but also ones arising after delivery is made. Nonetheless, it needs to be remembered that the CISG is designed to govern international sales contracts and in this respect, it clearly contrasts with the SGA which is a national law instrument. Hence, the CISG drafters avoided creating an extensive burden to the seller due to the difficulty of searching and knowing every possible IPRs in the world. It is not intended to impose on the seller an extensive burden to guarantee a worldwide warranty, so the restrictions imposed by Article 42.

Although the extent of the seller’s liability is not as broad as under s12 of the SGA, it is generally accepted that Article 42 targets to establish ‘a delicate and equal balance between the parties.’²⁷ Not only the CISG’s careful consideration of the parties interests but also the

²⁴ Daniel Friedmann, ‘Economic Aspects of Damages and Specific Performance’ in Djakhongir Saidov and Ralph Cunnington (eds) *Contract Damages Domestic and International Perspectives* (Oxford and Portland 2008) 90.

²⁵ Marta Cenini and Francesco Parisi, ‘An Economic Analysis of the CISG’ in Andre Janssen and Olaf Meyer (eds) *CISG Methodolgy* (Sellier 2009) 157.

²⁶ See ‘4.7. Conclusion’.

²⁷ Djakhongir Saidov, *Conformity of Goods and Documents The Vienna Sales Convention* (Hart Publishing 2015) 233; Ingeborg Schwenzer, ‘The CISG-A Fair Balance of the Interest of the Seller and he Buyer’ in Ingeborg Schwenzer, Cesar Augusto Guimarães Pereira, and Leandro Tripodi (eds) *CISG and Latin America*

remedies available for the breach of Article 42, in my view, makes the CISG more favourable option. Although the SGA holds the seller liable for IPRs which come into existence even after the conclusion of the contract, its remedial provisions do little much to release the goods from these third-party IPRs considering the requirement of the inadequacy of damages to be able to obtain specific performance.

However, authors still approach Article 42 cautiously and recommend that the parties opt out of Article 42.²⁸ Opting out the CISG has not been accepted as advantageous and argued that ‘In many situations the CISG can be the best choice, but no law is ideal in every situation.’²⁹ Its suggested that the reduction in negotiation costs, a certain degree of predictability on litigation and its uniformity designated to serve for international sales law constitutes advantages of the using the CISG.³⁰ The CISG as providing a uniform and harmonised set of rules is accepted as a successful instrument; thus the application of it is encouraged by most authors.³¹

Beline argues that the provisions dealing with third-party IPRs under most domestic laws carry ‘a certain degree of uniformity’, thus the preference of these rules would provide ‘greater predictability.’³² However, as I argued in Chapter Three, the establishment of a rule that embodies the common principles applied by most domestic laws would enhance predictability and eliminate any difference created between those laws. This proposition finds an echo in Zeller’s observation that ‘the application of a unified law to cross-border transactions is economically sound and produces superior results compared with the application of domestic law.’³³

Regional and Global Perspectives (Eleven International Publishing 2016) 79

<https://edoc.unibas.ch/42342/3/20160405104731_57037ba31e7eb.pdf> accessed 25 November 2018.

²⁸ See Allen M. Jr. Shinn, ‘Liabilities under Article 42 of the UN Convention on the International Sale of Goods’ (1993) 2 *Minn. J. Global Trade* 115; Anthony VanDuzer. ‘The Adolescence of the United Nations Convention on Contracts for the International Sale of Goods In Canada’ (The Canadian Bar Association’s International Law Section Annual Conference, Ottawa, May 2001)

<<http://www.cisg.law.pace.edu/cisg/biblio/vanduzer2.html>> accessed 25 November 2018; Beline (n 6).

²⁹ Lisa Spagnolo, ‘The Last Outpost: Automatic CISG Outs, Misapplications and the Costs of Ignoring the Vienna Sales Convention for Australian Lawyers’ (2009) 10 *Melb. J. Int’l L.* 141, 149. Similarly See Joseph Lookofsky, ‘In Dubio Pro Conventione. Some Thoughts about Opt-Outs, Computer Programs and Preemption Under the 1980 Vienna Sales Convention (CISG)’ (2003) 13 *Duke Journal of Comparative & International Law* 277.

³⁰ *Ibid*; Lisa Spagnolo, *CISG Exclusion and Legal Efficiency* (Kluwer Law International 2014) 101-130.

³¹ Bruno Zeller, ‘The Significance of the Vienna Convention on the International Sale of Goods for the Harmonisation and transplantation of International Commercial Law’ (2006) 17 *Stellenbosch Law Review* 466, 468; Ingeborg Schwenzer and Pascal Hachem, ‘The CISG—Successes and Pitfalls’ (2009) 57 *The American Journal of Comparative Law* 457; Larry DiMatteo, ‘Harmonization of International Sales Law’ in Larry A. DiMatteo and others (eds) *Commercial Contract Law Transatlantic Perspectives* (CUP 2013) 559; Lookofsky (n 29). He believed that the CISG deserves the support ‘because it represents a basically sound contractual regime.’

³² Beline (n 25).

³³ Zeller (n 28).

Throughout the Third Chapter, problematic issues either related to the language or practice of Article 42 were addressed. In engaging at this point, the main focus throughout was to improve the understanding and interpretation of this article. In condensing these various observations, I now propose a number of changes to the Article that could conceivably benefit lawyers and the courts and perhaps even contribute to the modification of the Article in the future. The proposed new version of 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 which exist when the contract concluded, but can be raised after this time. The seller is liable for these third party rights which he knew of or could not have been unaware of after reasonable inquiry at the time of the conclusion of the contract. The third party rights must be based on industrial property or other intellectual property pursuant to the law:

(a) of the State or States which are agreed as the place of the resale or usage of the goods by the parties at the time of the conclusion of the contract or

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

(2) The seller's liability under this article does not cover the cases where the existence of the right or claim

(a) is known or could not have been ignored by the buyer due to the apparent facts existing at the time of the conclusion of the contract or

(b) come into existence as result of the seller's compliance with the buyer's specific instructions which do not leave any discretion to the seller.

5.6. Concluding Remarks

In a world where technology has been rapidly developing, integration of goods and IPRs should be acknowledged. These rights are commercially valuable because, as a property right, they can be transferred, licensed or used as a security.³⁴ When the link between intellectual property and commercial law is taken into account, there is a need to regulate these areas of law together. Not only the protectability of IPRs attached to goods and the protection of IPR holders by IP law is important, but the effect of this relationship to sales of goods should also be considered

³⁴ David I. Bainbridge, *Intellectual Property* (9th edn, Pearson 2012) 22.

carefully. It is necessary to raise awareness of the issues that a buyer may encounter if a third-party approaches him for IPRs, as this will contribute to the development of solutions.

In the current situation, national legal systems contain rules that relate to third-party rights over goods, which are generally considered to be defects in title to goods, and problems result in terms of passing the title. Examples are the Sale of Goods Act 1979 s12, the US Uniform Commercial Code § 2-312 and Ontario's Sale of Goods Act s13. However, Spagnolo concludes that the CISG 'is probably relatively more efficient than competing alternative English and US laws.'³⁵ In my view, it is also necessary to provide a rule which specifically deals with third-party IPR infringements under a sale of goods, especially in international sales agreements. When liability and protection are clearly established, security in trade will be enhanced.

Although the CISG restricts the seller's liability for delivering the goods free from third-party IPRs, and its vague wording leads to different interpretations of the application of Article 42, on balance, rather than opt out the rule under the CISG, or choose a domestic law to solve the issue, Article 42 should be preferred and it is hoped that the proposal made in this thesis to improving it will assist the achievement of this objective.

³⁵ Spagnolo, *CISG Exclusion* (n 30).

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