

Buyers' Remedies against Sellers of Products Infringing Third-Party Rights

French national law and international law under the 1980 United Nations Convention

PIERRE VÉRON

Paris



The aim of this study is to determine whether and to what extent the United Nations Convention of Vienna, which entered into force in France on January 1, 1988, brings substantial changes to the present state of French law in relation to the warranty obligation of the seller of products deemed to infringe third-party rights.

The United Nations Convention on the international sale of goods signed in Vienna on April 11, 1980 now forms the basis for the French common law in relation to the international sale of goods.

Sales made by French companies to purchasers located in France's main trading partner countries, and in turn, purchases made by French companies from sellers located in these countries are governed by the Convention: namely Australia, Austria, Canada, China, the Czech Republic, Denmark, Finland, Germany, Hungary, Italy, Mexico, The Netherlands, New Zealand, Norway, Poland, Romania, Russia, Spain, Sweden, Switzerland and the United States have ratified the Vienna Convention.

This Convention includes specific provisions relating to the warranty obligation of the seller, whereby the seller warrants to the buyer that the goods are free from any rights or claims of a third party based on intellectual property.

It would therefore be of interest to compare the warranty system instituted by the Vienna Convention with that in force in French national law, as borne out, for the most part, by the case law emanating from the French national courts.

This study is nonetheless of a prospective nature, since it would not appear that the specific provisions of the Convention have been the subject of any case law published in the main signatory States to date.

However, first of all, it would be useful to recall the sphere of application of the Vienna Convention.

SPHERE OF APPLICATION OF THE VIENNA CONVENTION

Articles 1 to 3 of the Convention define the sphere of application with regard to the territories covered and the type of contracts concerned.

The author extends his deepest gratitude to M. Jean-Paul Beraudo Presiding Judge at the Grenoble Court of Appeal, former Head of the European and International Law Office at the Ministry of Justice and one of the negotiators of the Vienna Convention in this capacity, for having been kind enough to read over this study and provide some precious information.

First, Article 1 stipulates that the Convention applies to contracts of sale of goods between *parties whose places of business are in different States*.

In doing so, the Convention sets a criterion of internationality which is somewhat different from French international law which favours the cross-border flow of goods and payments, irrespective of where the parties have their place of business as such.

Accordingly, a sale made by a French seller to a Dutch buyer who intends to distribute the goods throughout the entire European Union -including France- shall be governed by the specific provisions of the Vienna Convention in terms of industrial property rights warranties in the event any claims based on intellectual property are brought before the French courts.

Conversely, a sale made by a French seller to the French subsidiary of a Dutch group which intends to distribute the goods in The Netherlands shall not be governed by the Vienna Convention.

In addition, there still has to be some *link between the parties and one of the Convention's signatory States*.

Such is the case where the buyer and the seller each have their place of business in two different Contracting States (Article 1(a)).

Such is also the case "when the rules of private international law lead to the application of the law of a Contracting State" (Article 1(b)); this wording covers the situation where the ruling court decides, in accordance with the conflict of laws mechanism which it applies, that the law governing the contract of sale is that of a Contracting State; in which event, if the parties do not have their place of business in the same state, the governing law shall be that of the Vienna Convention —and not the national law of the given country.

Private international law experts will not fail to draw great intellectual satisfaction from this system in which a convention relating to governing law (such as the La Hague Convention dated June 15, 1955 on the law governing international sales of tangible movables or the Rome Convention of June 19, 1980 on the law governing contractual obligations) may lead to the effective application of a convention unifying property law.

The Vienna Convention, after excluding certain types of sale from its sphere of application (sales by auction, sales on execution, sales of ships and so on) provides the *definition of a sale*, in wording which could frequently be applied in claims relating to intellectual property rights.

Accordingly, it states that "contracts for the supply of goods to be manufactured or produced are to be considered sales unless the party who orders the goods undertakes to supply a substantial part of the materials necessary for such manufacture or production" (Article 3(1)≠).

The exception provided for by this Article is also recognised in French law: when the party who orders the goods provides most of the raw material, French national law considers the transaction to be a contract on undertaking and not a contract of sale.

However, the general assimilation of contracts for the supply of goods to be manufactured with contracts of sale is not the rule of law in France: indeed sometimes French national law deems contracts for the supply of goods to be manufactured to be contracts on undertaking in the event the goods are produced in accordance with the particular specifications of the customer and not in accordance with the supplier's regular catalogue or plans.¹

It should be noted that, as in French national law, Article 3(2) of the Convention does not consider contracts in which the preponderant part of the obligations of the party who furnishes the goods consists in the supply of labour or other services to be contracts of sale.

Finally the Convention states that it is of a *compensatory nature* in relation to the parties' intentions and that the parties may, in principle, exclude its application or derogate from any of its provisions.

COMPARISON OF THE VIENNA CONVENTION AND FRENCH LAW

Now that we have recalled the sphere of application of the Vienna Convention, we shall embark on a comparison between its content and that of French positive law.

This comparative study shall cover the following issues:

- the establishing of an express seller's warranty principle by the Vienna Convention;
- the impact of the state of destination of the goods;
- the need for the seller to have knowledge of the rights for him to be held liable;
- the cases in which the seller may be exempt from the warranty obligation;
- legal warranty clauses;
- the operation of the seller's warranty.

Before comparing the national system with the international system, it would be useful to cite Article 42 of the Vienna Convention:

1. The seller must deliver the 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.

1. The obligation of the seller under the preceding paragraph does not extend to cases where:

- (b) at the time of the conclusion of the contract the buyer knew or could not have been unaware of the right or claim; or
- (c) the right or claim results from the seller's compliance with technical drawings, designs, formulae or other such specifications furnished by the buyer.

This provision is somewhat reminiscent of Article 2-312 of the Uniform Commercial Code of the United States of America, which forms the "parent provision" for the Convention on this point:

Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.

The establishing of an express seller's warranty principle by the Vienna Convention

The first point to be noted is that the Vienna Convention provides for an *express seller's warranty principle* to the effect that the goods are free from any third-party industrial property rights or claims.

The inclusion of this principle in the Vienna Convention is a reflection of the growing importance of industrial property rights in international trade. This importance is borne out by the place given to such rights in the Marrakech agreements relating to the World Trade Organisation and notably in the Agreements on trade-related aspects of intellectual property rights, commonly known by the English acronyms as "GATT TRIPS".

Conversely, as no French text has ever touched on this problem, in France we have to resort to case law as the source of all positive law solutions. However, in doing so, we will see that the legibility of such case law can be just as pragmatic as the reasons for which it came about.

Nonetheless, French case law has always considered that the seller has a duty to deliver goods free of any third-party intellectual property rights.

Indeed, the Court of Cassation clearly re-established this principle when ruling on an appeal against a decision which rejected the action in warranty brought by a retailer (the company Au Bon Marché) against its supplier (the company Intermod) on the grounds that "the company Au Bon Marché has not invoked any special warranty provision granted by Intermod".

This decision was quashed on the grounds that it was in breach of Article 1626 of the French Civil Code: "Whereas, in so ruling, even in the absence of a warranty provision the seller remains bound to refund the purchase price, the Court of Appeal is in breach of the above-mentioned text."²

Therefore, although there is a different approach on this point, the outcome is the same.

¹ Cass. Com., June 20, and July 4, 1989, D 1990, J, 246 Virassamy note.

² Cass. Com., May 16, 1995, unpublished.

The impact of the state of destination of the goods

Conversely, the law arising from the Vienna Convention is very different from the French law in relation to the *state of destination of the goods*.

The reason for this is very well explained by the Official Documents of the United Nations Conference, which, after having recalled the general warranty rule applicable to domestic sales in most legal systems, explain why a different rule is desirable for international sales:

Pursuant to what would appear to be the general rule, the seller is bound to deliver goods which are free from any right or claim of a third party based on industrial or other intellectual property in most, if not all, legal systems. This rule is justified in the framework of a national sale. Indeed, the manufacturer of goods must assume ultimate liability for any infringement of industrial or intellectual property rights in the country where it carries out both its manufacturing and sales operations. A rule which places liability with the seller thus enables the ultimate liability of the manufacturer to be invoked.

However, it is not so evident that, in an international business transaction, the seller of goods should be liable towards the buyer for any infringement of industrial or intellectual property rights to the same extent. Firstly, the infringement will almost always occur outside the seller's country and accordingly the seller cannot be required to know the rules relating to industrial or intellectual property rights which might be infringed by his goods to the same extent as he is expected to know such rules for his own country. Secondly, it is the buyer who decides which countries the goods are to be sent to for use or resale. The buyer may take this decision before or after the conclusion of the contract of sale. There may even be sub-buyers who buy from the buyer and send the goods to another country where they will be used.

These reasons are entirely convincing: it is understandable for the seller to be aware of (or deemed to be aware of) the intellectual property rights existing in his own country and that, for this reason, he be required to warrant that the goods he sells do not infringe such rights.

Conversely, the seller cannot, *a priori*, be required to warrant that these goods are free from any rights or claims in dozens of different legal systems.

This is why Article 42(1) of the Vienna Convention provides that the seller must warrant that the goods are free from any right or claim of a third party based on intellectual property:

- 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
- in any other case, under the law of the state where the buyer has his place of business.

The alternative is perfectly justifiable:

- if the seller knew that the goods were intended for a particular market, it is perfectly natural for him to warrant that the goods are free from any rights or claims based on intellectual property in the market in question,
- if the seller was not told that the goods were to be sold in a state other than that where the buyer has his place of business, it is normal for him only to warrant that the goods are free from any rights or claims based on intellectual property in that state.

Is this system different from that of the French law governing domestic sales?

First, it should be noted that there would not appear to be any published French case law concerning the question of whether a French seller could be bound to warrant against infringement of foreign industrial property rights.

This undoubtedly stems from the fact that the problem of the seller's warranty more often than not arises within the framework of litigation between the holder of the rights and the buyer, where either the holder of the rights has taken action against both the seller and the buyer - in turn invoke their respective liabilities - or the buyer, who is the only defendant in the proceedings, summons the seller in an action in warranty.

Therefore, the case will generally be brought before a foreign court which will rule on both the main action (that of the holder of intellectual property rights against the buyer) and the action in warranty brought by the buyer against the seller.

These foreign decisions are not published in French case law journals (even if, by the rule of conflict of law which they use, they may lead to the application of French law on the action in warranty brought by the buyer against the seller).

However, French case law has, on several occasions, ruled on the liability of the foreign seller who exports goods deemed to infringe French intellectual property rights to France from his country.³

In general, case law has established the principle that foreign suppliers are only liable if at the time of sale they knew that the goods were intended for the French market.

This will obviously be the case for the last foreign seller who sells to a French buyer: he shall be liable irrespective of the legal terms of sale (ex-works, FOB, free border, duty paid and so on).

Conversely, a foreign trader who has not taken part in the introduction of the goods to France and who was not to know that the goods he had sold were destined to be imported to France, is generally not liable under French case law.

This applies to foreign manufacturers who sell to buyers in their own country and who in turn decide to export the goods to France: the manufacturer will not be held liable towards the holder of rights infringed in France.⁴

It may well follow that he will not be bound to provide a warranty for his foreign customer, who conversely, may well be bound to provide a warranty for his French customer.

Therefore, we may conclude that the law arising from the Vienna Convention does not differ considerably from the solutions resulting from French case law in relation to the adjustment of the seller's warranty depending on the state of destination of the goods.

However, the obligation under the Vienna Convention for the seller to warrant that the goods are free of any rights or claims based on current industrial property rights, unless otherwise stipulated or notwithstanding any specific circumstances, may catch out certain French companies.

It is true to say that a French manufacturer cannot expect to sell capital goods to a foreign customer without having checked that these goods do not infringe any patents in force in the customer's state.

³ Cf J. Cl. Brevets Fasc. 400, no. 16 *et seq.*

⁴ Paris, June 8, 1978, PIBD, 1979-III-57.

However, a French company selling consumer goods to many customers in a whole range of different states should be aware that, unless otherwise stipulated, it warrants that these goods do not infringe copyright, drawings or models in these states and, further still, that they are not the subject of registered trade marks in these states.

This is an onerous undertaking, of which certain companies are perhaps unaware.

The need for the seller to have knowledge of the rights for him to be held liable

Conversely, the law arising from the Vienna Convention differs greatly from French law in so far as, in relation to *the seller's knowledge of the third-party intellectual property rights*, it states that the seller must deliver goods which are free from any right or claim based on intellectual property "of which at the time of the conclusion of the contract the seller knew or could not have been unaware".

This provision no longer concerns the territorial sphere of the rights in question pursuant to sub-paragraphs (a) and (b) of the first paragraph of Article 42.

However, it covers the case where the warranty does apply, for instance due to the fact that the seller knew full well that the goods would be resold in the country where the industrial property claim arises.

However, in such a case, the warranty shall not necessarily be automatically enforceable: it shall only be enforceable if the seller knew or could not be unaware of the intellectual property rights invoked against the buyer.

In French national law, no court has ever ruled in favour of such a distinction: the seller is always, *a priori*, liable towards the buyer, even if the claim of the third party giving rise to the action in warranty is based on a right which the seller did not know of or of which he could not reasonably have been unaware.

In this respect, we know to what extent certain manufacturers complain about the difficulties—which are often insurmountable—posed by this need for them to know about the intellectual property rights of creators of technical drawings which are often unpublished or even kept secret.

International law has taken up their plea.

Therefore we may say that international sellers should be bound to provide the buyer a warranty against claims based on rights which are published or accessible (issued patents, published patent applications, registered trade marks or published trade mark applications, registered or published drawings or designs).

However, the seller should only be required to provide the buyer with a warranty against claims based on other rights (unpublished applications for industrial property rights, but also and above all copyright) if it is proven, *in concreto*, that he had good reason to know of these rights, for instance by virtue of his professional speciality, of the extent to which such rights are exploited by their holder and the measures taken by the latter to indicate the existence of his rights (for instance, use of the copyright © sign).

Cases in which the seller may be exempt from the warranty obligation

Article 42 of the Vienna Convention provides two exceptions of unequal importance to the seller's obligation. These

exceptions differ from French national law to varying degrees:

- the case where the buyer "knew or could not have been unaware" of the existence of third-party rights based on intellectual property;
- the case where the right or claim results from the seller's compliance with technical drawings, designs, or other specifications furnished by the buyer.

Exemption of the seller when the buyer himself knew of the claim against him based on intellectual property rights

The fact that the buyer's knowledge of the claim against him is a ground for exemption of the seller from his warranty obligation is not surprising for French lawyers.

French case law is perfectly consistent on this point, considering that the buyer who has acted "in full knowledge of the facts" cannot bring an action in warranty against the seller.

The wording of this principle would appear to be easily applicable. However, this is not entirely the case as two considerations enter into play:

- the notion of full knowledge of the facts is involved both in the appreciation of the buyer's own liability towards the third-party holder of intellectual property rights and in the examination of the action in warranty brought by the buyer against the seller, is the notion the same in both cases? and what does it encompass?
- French case law provides an exception to the exception by entertaining—although not in every case—the action in warranty by the buyer who is deemed to be "in full knowledge of the facts" when the contract includes an express warranty provision which is binding upon the parties.

Content of the notion of full knowledge of the facts by the buyer

The notion of full knowledge of the facts is common to both the question of infringement and that of the warranty.

In relation to patents, we know that Article L 615-1 of the French Intellectual Property Code distinguishes between the manufactured - to whom the importer is assimilated in case law - who is deemed to be liable irrespective of whether he has acted "in full knowledge of the facts", and other people.

However, the offer, sale, use, or retention with a view to use or sale of a product infringing third party rights, in the event these acts are committed by any person other than the manufacturer of the product in infringement, only give rise to the liability of such person if the acts are committed in full knowledge of the facts.

We also know that the notion of full knowledge of the facts requires knowledge not only of the existence of the patent invoked—for everybody is deemed to know of issued patents and published patent applications—but also of the potentially infringing nature of the goods in question.

Therefore it is clear that if the user, the guardian or the retailer of the product deemed to infringe third-party rights are considered to be in full knowledge of the facts in relation to the holder of the rights - and consequently infringers - they will also be acting in full knowledge of the facts in

relation to their seller (clearly for the period of time when they make their purchases whilst in full knowledge of the facts).

However, what happens in cases — which often arise in French law — where full knowledge of the facts is not a condition for infringement?

In other words, when will a person deemed to be an infringer simply for having resold goods in infringement of third-party rights be deemed to be acting in full knowledge of the facts and, for this very reason, deprived of taking action against his seller?

Excluding the case where the holder of the right has made a special complaint to this buyer for the very purpose of giving him "full knowledge of the facts", a case which cannot be disputed as of the date of the complaint, French case law considers the professional quality of the buyer and the notoriety of the right which has been infringed:

(1) In relation to patents:

The companies Calfa and Ordo could not ignore the existence of the patent which they had infringed; indeed, this patent, designated by the name of "B3A complex" was mentioned on several occasions in a document submitted as evidence ... accordingly the companies Calfa and Ordo could not be exempted, even in part, from their own liability and consequently their request to introduce a third party in an action in warranty should be dismissed.⁵

This company, an informed professional, acted in full knowledge of the facts; accordingly its request to introduce a third party in an action in warranty is unfounded and must be dismissed.⁶

The company Silex, in its capacity as an informed professional, could not be unaware of Trioving locks and their similarity with those of the company Tecsesa and, accordingly may not argue that it was acting in good faith ... the manager of the company Fixa stated to the bailiff that he knew the company Trioving well and that "their lock presented some similarities with the Tecscart de Tecsesa lock", ... the companies Fixa and Silex, having acted in full knowledge of the facts, are unfounded in their request to introduce a third party in an action in warranty which must be dismissed.⁷

(2) In relation to trade marks:

Due to the notoriety of the "Chanel" trademark, the company Luigi could not be unaware that the monograms appearing on the bags of Biran establishments were an unlawful imitation of this trademark and in these circumstances cannot establish that it was acting in good faith ... accordingly, the company Luigi's request to introduce a third party in an action in warranty is inadmissible.⁸

In their capacity as professionals in the film and video production and distribution business, the two companies could not be unaware that they did not have the right to distribute the video cassettes which were covered by trademarks which did not belong to them, without having obtained the prior express approval of the holder of such trademarks.⁹

However, whereas the Court of Appeal, both by its own reasoning and that adopted by the first instance judges, found that Mr. Lachkar could, in his professional capacity, not be

unaware that the clothing infringing third party rights which he had in his possession and was offering for sale did not issue from the company Chanel and that these goods had not been manufactured by the latter; whereas in so ruling, the Court of Appeal found that Mr. Lachkar could not invoke that his good faith had been taken unawares by his supplier and, quite rightly, dismissed his request for the introduction of a third party in an action in warranty; accordingly his claim is unfounded.¹⁰

(3) In relation to drawings and models:

In buying "Renault" bumpers intended for Renault customers wholesale from the Company Labet and importing them from the foreign company Unicar for several years, the company Paban, a professional in the business of selling car accessories, could not be unaware of the perfect resemblance of the contested products to the Renault model, nor that such products originated from outside Renault.¹¹

As an informed professional, the company could not be unaware of the infringing nature of the furniture which it introduced to and sold in France and accordingly could not invoke a warranty to hold it harmless for a fault of its own.¹²

The contested objects appeared in a catalogue of the company Chaumette (plaintiff in infringement proceedings) at a time stated by the company Forms itself (defendant in infringement proceedings, applicant for introduction of a third party in an action in warranty) to be 1978. They were therefore distributed on the market to a certain extent, and such distribution could not escape the knowledge of a competitor in a field where vigilance is all important. ... The company Forms has not established its good faith and must accordingly be held liable for any sanctions up to an amount of 50% as importer and distributor of models infringing third party rights (and warranted by the foreign seller).¹³

Although, whereas the contested judgement rules without appeal that the company JLRT Rolande Tapiou had, in full knowledge of the facts, offered products infringing third party rights for sale and was accordingly unfounded in invoking the warranty of its seller for the eviction which it was the subject of; the contested judgement is therefore justified in law.¹⁴

These solutions provided by case law have received full approval and bear witness to the very realistic view of the conditions in which the retailer may or must know of the intellectual property rights of third parties.

To conclude, as a counter-balance, we should mention two decisions which rule in favour of the buyer acting in good faith, enabling him to introduce a third party in an action in warranty.

When there is nothing to establish that they were aware of the defect in title affecting the machines which they had purchased, both their request to introduce a third party in an action in warranty and their action to declare a contract void for defect in performance pursuant to Articles 1641 et seq. of the French Civil Code should be received.¹⁵

A distributor acting in good faith must be held harmless by his supplier.¹⁶

5 TGI Paris, 3rd Ch, June 30, 1981, PIBD, no. 289-III-225

6 TGI Paris, 3rd Ch, October 19, 1989, PIBD, no. 472-III-101.

7 TGI Paris, 3rd Ch, November 17, 1989, PIBD, no. 475-III-207

8 Paris, 4th Ch, November 9, 1983, PIBD, no. 1984-III-122.

9 TGI Paris, 3rd Ch, July 12, 1984, PIBD, no. 1985-III-90.

10 Cass. Com., April 21, 1992, unpublished.

11 Aix en Provence, May 9, 1980, Ann. P.I. 1981.

12 Paris, January 17, 1984, PIBD, no. 348-III-150.

13 Paris, 4th Ch, December 11, 1986, PIBD, no. 412-III-216.

14 Cass. Civ. 1, May 10, 1995, unpublished.

15 Paris, 4th Ch, June 13, 1980, PIBD, 269-III-222.

16 Amiens, 1st Ch, January 27, 1993, JCP, 1993-IV-1320.

The seller's compliance with the instructions of the buyer

Article 42(2)(b) of the Vienna Convention exempts the seller of all liability towards the buyer when the claim based on any third-party intellectual property right results from the seller's compliance with the instructions of the buyer (technical drawings, designs, formulae or other such specifications furnished by the buyer).

In so far as the distinction between contract of sale and contract on undertaking pursuant to the Vienna Convention is not exactly the same as in French law, it is somewhat difficult to make any comparison between the systems governing sales on express specifications.

First, it should be noted that case law journals do not abound with decisions dealing with this kind of situation within the framework of contracts qualified as contracts of sale.

However, there are some decisions concerning the respective liabilities of a principal who has ordered a product subsequently deemed to infringe third-party rights and the company which has complied with such order.

In French national law, there is no doubt that a company which performs the material manufacture of a product infringing third-party rights is itself an infringer.

The fact that it has acted on the instructions of the principal—however precise such instructions may be—does not exclude it from being held liable against the holder of the infringed rights: in such cases, as in other fields of law, a defence based on the fact that the defendant was merely obeying orders has not proved successful.

As for the principal, in general he will be sanctioned as co-author of the infringement.

However, what is the situation governing relations between a principal and a sub-contractor? Who should provide the warranty?

Further to Article 42(2)(b) of the Vienna Convention, the sub-contractor—qualified as the seller—does not have any warranty obligation towards the principal when all he is doing is obeying the principal's instructions and complying with his specifications.

The outcome is undoubtedly the same in French national law. In effect, it would appear that no principal has ever been impudent enough to invoke the liability of the person from whom he had ordered a product infringing third-party rights!

The problem is more likely to arise the other way round, when the sub-contractor who is convicted of infringement of third-party rights takes action against his principal.

On this point, it has been ruled that the infringing sub-contractor has no remedy against the principal:

However, whereas, having found that the company Steria had a duty to obtain information on the rights of the CRCAM and the GAIM over the Logicoop software, from which it resulted that the latter companies could not hold the company Steria harmless as a result of its own actions, the Court of Appeal, in reply to the submissions which had allegedly been renounced, ruled that, due to the fact that it had undermined the rights of the company SCS, the company Steria was liable towards the latter.¹⁷

However, it would appear that the results would be different if there were a warranty clause in the contract:

The sub-contractor, a manufacturer, was bound to make the necessary enquiries as to the lawful nature of the goods it had

been requested to manufacture; accordingly it may not plead that it was acting in good faith; in the absence of a contractual warranty clause, it has no possible remedy.¹⁸

We may therefore conclude that the warranty system against infringement of industrial property within the framework of products manufactured in accordance with the buyer's specifications is similar in the Vienna Convention and French national law, in so far as the seller who has complied with the specific instructions of the buyer is not usually bound to hold the latter harmless through warranty.

Such are the compensatory rules enacted in the Vienna Convention which are reflected in French case law, in the absence of any provision relating to the seller's warranty obligation.

However, what happens in the event of a specific clause relating to the seller's warranty obligation?

Warranty clauses

We shall examine the case, which is quite unusual in this particular practical field, where the seller excludes the application of any warranties.

We shall then move on to examine the opposite case where the buyer has taken the precaution to stipulate that the seller is obliged to provide a warranty against infringement of any third-party intellectual property rights.

Clauses excluding the application of warranties

The compensatory nature of the Vienna Convention in relation to the parties' intentions is expressly stipulated in its Article 6 which provides as follows: "The parties may exclude the application of this Convention, or, subject to Article 12, derogate from or vary the effect of any of its provisions."¹⁹

Accordingly, there is nothing to stop the parties from altering, or even deleting the warranty obligation provided for in Article 42 of the Vienna Convention.

Would it be possible for the parties to exclude the application of a warranty in French law?

In general, this would not appear to be possible: indeed, we know that French case law deems any exclusion or limitation of warranty clauses included in contracts of sale to be unwritten, except when such contracts are entered into between professionals in the same field.

This could often be the case in this matter, as sales are often made between professionals in the same field. In this case, the exclusion or limitation of a warranty clause could be valid, provided that the seller was acting in good faith when he included it in the contract. This does not mean that the seller may never include an exclusion of warranty clause if he is aware of the possibility of any claim for infringement brought by a third party. It simply means that the seller may only validly stipulate an exclusion of warranty clause if the buyer has been informed of the situation and the possibility of any claims for infringement brought by a third party.

18 TGI Paris, 3rd Ch, April 24, 1986, D 1988, Som. P 349.

19 Article 12 relates to the right which may be reserved by certain states upon ratification of the Convention only to accept contracts of sale which are concluded in writing.

17 Cass. Com., July 6, 1993

In our opinion, the two clauses set forth below which were stipulated in good faith, each in their appropriate context, could be valid:

The seller declares that, to his knowledge, the goods sold are free from any right or claim of a third party based on intellectual property; however, given the difficulty and the uncertainty relating to searches for rights and studies of the freedom of exploitation, he cannot provide any warranty to this effect.

Or

The seller and the buyer hereby declare that they are well aware of the action brought by the company X which claims that the goods currently on sale are in infringement of its intellectual property rights; the buyer hereby undertakes to handle all potential consequences of this claim, without being entitled to seek any remedy whatsoever against the seller.

Express warranty clauses

Given the compensatory nature of the Vienna Convention in relation to the parties' intentions, there would appear to be nothing to prevent a special agreement between the seller and the buyer so as to strengthen the provisions of Article 42. French national law is apparently more hesitant on this point.

Certain decisions, which are now somewhat dated but have been approved by the most eminent doctrine,²⁰ have found without hesitation that agreements entered into between parties found guilty of infringement are "contrary to the public interest":

The warranty undertaking made during these proceedings by a company which manufactures equipment infringing the rights of the company which introduced this equipment to France is null and void insofar as it is contrary to the public interest, as soon as the second company is found to be co-author in the offence of infringement.²¹

However, it should be noted that there has been a slight change - perhaps a turnaround? - in case law as many more recent decisions have upheld such express warranty clauses in the event the seller is considered to be acting in "full knowledge of the facts", without the slightest hesitation as to their validity:

(1) In relation to patents:

Furthermore, the intervention of the company SGIL in defence of the company Krups France should be admitted, due to the fact that, pursuant to a contract dated September 15th 1981 entered into with the German company Robert Krups, SGIL undertook to hold the latter harmless, along with its subsidiaries, against any claims based on industrial property which might hinder the marketing of the products delivered by it.²²

(2) In relation to copyright:

The contract dated March 20th 1982 stipulates that the company Unité Trois warrants to hold the company Editions Prosperine harmless against any claim arising out of the distribution of the video tapes of the film "5% du risque".

Accordingly, the company Unité Trois should be bound to hold the company Editions Prosperine harmless against the sentence delivered.²³

In this field, the Court of Cassation has made its stance extremely clear:

Given Article 1134 of the French Civil Code;

Whereas the decision rejected the request formulated by Galeries Lafayette against the company New Galaxie on the grounds that "it could not request a warranty against sanctions delivered as a result of its own fault";

Whereas, in so doing, the Court of Appeal, although it had found that the order form relating to the contended goods stipulated that the latter was to be held harmless by the supplier against any claims relating to artistic rights, refused to apply the agreement between the parties, leaving aside the fact that the Galeries Lafayette had committed, with respect to the company New Galaxie, a fault liable to deprive it of the right to invoke said stipulation, was in breach of the above-mentioned Article.²⁴

Many decisions, applying the same doctrine *a contrario*, refuse to allow the buyer deemed to be acting in full knowledge of the facts to invoke the warranty, whilst making careful note of the fact that no formal warranty clause has been agreed between the parties.

(3) In relation to patents:

The application to introduce a third party in an action in warranty by the company LESSIVES SAINT-MARC is stated to be unfounded as (its supplier) did not warrant that it would hold it harmless against any claims.²⁵

The company Phyto Service is being challenged for a fault of its own which consisted in its having, in full knowledge of the facts, held for sale, offered for sale and sold a product infringing third party rights; it cannot invoke a warranty to hold it harmless against a third party due to its own fault, it being observed that the applicant invoking such warranty has not produced any contract containing a warranty clause.²⁶

(4) In relation to trade marks:

Whereas, Sylvina Paolo cannot be held harmless, in the absence of any contractual stipulations to this effect, by Erem for the consequences of her own fault.²⁷

(5) In relation to software:

MacsI Informatique is wrongful in maintaining its application to introduce a third party in an action in warranty. Indeed, as the court has quite rightfully shown, in the absence of any warranty clause binding itself and its suppliers, the company MACSI is unfounded in making the latter suffer the consequences of a fault (the sale of software infringing third party rights) of its own.²⁸

Accordingly, this overview of French case law can be summarised as follows:

- if the buyer is not fully aware of the facts, he is automatically entitled to invoke the seller's warranty;
- if the buyer is deemed to be fully aware of the facts, the seller's warranty may only be invoked in the presence

◆ ◆ ◆ ◆ ◆

20 J.M. Mousseron, *Technique Contractuelle* no. 901.

21 It is true to say that this nullity is attenuated by the fact that the court nonetheless receives the action in recourse of the second company against the first for its share of liability, fixed at 4/5 (TGI Paris, 3rd Ch, June 14, 1974, PIBD, 1974-III-421).

22 TGI Paris, 3rd Ch, January 28, 1986, PIBD, 392-III-211.

◆ ◆ ◆ ◆ ◆

23 TGI Paris, 3rd Ch, July 12, 1984, PIBD, 364-III-90.

24 Cass, Civ. 1, February 5, 1991.

25 TGI Paris, 3rd Ch, March 28, 1985, PIBD, 373-III-217.

26 TGI Paris, 3rd Ch, April 25, 1985, PIBD, 1985-III-246.

27 Paris, 4th Ch, March 19, 1992, *Annales P.I.*, 1992 at 240.

28 Paris, March 5, 1987, PIBD, 415-III-263.

of an express warranty clause, which is henceforth accepted as valid.

Consequently, it would appear that French national law follows exactly the same line as that instituted by Article 42 of the Vienna Convention as, in both cases:

- the application of a buyer who is deemed to be fully aware of the facts to introduce a third party in an action in warranty is, in principle, dismissed;
- an express warranty clause can nonetheless be validly stipulated in order for such an application to be upheld.

This comparative examination of the provisions of the Vienna Convention and French national law on sales paints a somewhat reassuring picture for French lawyers. None of the provisions of the Convention would appear to stray from French national solutions. In this respect the law for international sales is perhaps a step ahead of industrial property law which, despite repeated attempts at approximation, still varies considerably from country to country.

Operation of the warranty

The conditions for the operation of the seller's warranty, when such is due to the buyer, would not appear to differ greatly in the Vienna Convention and French national law.

First, in relation to the formalities to be carried out, we should mention the terms of Article 43 of the Vienna Convention which states as follows:

1. The buyer loses the right to rely on the provisions of Article 41 or Article 42 if he does not give notice to the seller specifying the nature of the right or claim of the third party within a reasonable time after he has become aware or ought to have become aware of the right or claim.
2. The seller is not entitled to rely on the provisions of the preceding paragraph if he knew of the right or claim of the third party and the nature of it.

Article 44:

Notwithstanding the provisions of paragraph 1 of Article 39 and paragraph 1 of Article 43, the buyer may reduce the price in accordance with Article 50 or claim damages, except for loss of profit, if he has a reasonable excuse for his failure to give the required notice.

French lawyers will not be disconcerted by any of these provisions:

- neither, the obligation of the buyer to give notice to the seller of the claim of the third party within a reasonable time period;
- nor, the provision forbidding the seller acting in bad faith to rely on the non-fulfilment of the preceding provision;
- nor, finally, the transposition of the maxim "*quae temporalia sunt ad agendum, perpetua sunt ad excipiendum*"

can be surprising for civil lawyers.

Nor is the system of damages pursuant to the Vienna Convention surprising for civil lawyers. In this respect, Article 74 States as follows:

Damages for breach of contract by one party consist of a sum equal to the loss, including loss of profit, suffered by the other party as a consequence of the breach. 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.

This solution complies with French law.

However, it should be noted that it does not provide for the event of wilful misconduct of the defaulting party, in which case French national law allows damages to cover the full amount of the loss.