

Question B

To what extent does the principle of exhaustion of IP rights apply to the on-line industry ?

National report for Hungary

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In recent years, online industry had – and is having – an extraordinary increase and developments. According to Eurostat, in the EU-28, enterprises realised that 14 % of their total turnover came from e-commerce during 2012, consisting of orders via a website or via EDI-type messages. In fact E-commerce enables enterprises to establish their presence on the market at national level and also to extend their economic activities beyond national borders.

The scope of the Questionnaire is to examine new developments in the application of the principle of exhaustion of IP rights to the online industry in national law.

Recent decisions in Europe and in the United States (in Europe, EU Court of Justice C-128/11 of July 3 2012 - the Oracle Case; in US, Supreme Court n. 11-697 of March 19, 2013 and US Supreme Court n. 11-796 of May 13, 2013) have brought to new attention the principle of exhaustion of IP rights, and, in general, new interest to the online industry in itself, and in its relation to IP rights.

1. Exhaustion of IP rights

How is the “principle of exhaustion of IP rights” defined by your national law? How is it defined and applied in case law?

Exhaustion of IP rights means that the holder of an IP right - as a rule - cannot oppose the further sale or commercialization of the subject right (or the pertaining product), provided that the first sale occurred with the IP owner's authorization. In practice, exhaustion provides for the right to resell and advertise a product by distributors without the express authorization of the IP owner, however, exhaustion does not hinder the IP owner to control the resale / distribution of its products if it has a legitimate reason to do so. Hungary is member of the EU therefore the exhaustion of IP rights applies to the whole territory of the European Economic Area.

Which specific IP rights are, - in jurisprudence and your country case law - subject to the principle of exhaustion (patents? trademarks? copyright? design?) ?

Exhaustion of rights is defined by the special legislation applicable to the subject IP right, in particular:

- *Copyright:*

Under Section 23 (5) of the Act No. LXXVI of 1999 on Copyright (Copyright Act)

If the copy of the work has been put into circulation by the rightholder or by another person expressly authorized therefor by the rightholder through sale or the assignment of ownership in any other manner within the European Economic Area, the right of distribution, with the exception of the right of rental, lending and importation, shall further on be exhausted with regard to the copy of the work thus put into circulation."

- *Trademarks:*

Act XI of 1997 on the protection of trademarks and geographical indications (Trademark Act) Section 16 (1) Trademark protection shall not entitle the holder to prohibit the use of the trademark in relation to goods which have been placed on the market in the European Economic Area by him or with his expressed consent.

(2) Paragraph (1) shall not apply where the holder has legitimate reasons to oppose further commercialization of the goods, in particular where the condition of the goods has been changed or impaired.

- *Patents:*

Act XXXIII of 1995 on the protection of inventions by patents (Patent Act)

Article 20 - The exclusive right of exploitation conferred by patent protection shall not extend to acts concerning a product put on the market in the territory of the European Economic Area by the patentee or with his express consent, except where the patentee has legitimate interests in opposing the further marketing of the product.

Article 20/A (4) The exclusive right of exploitation conferred by patent protection shall not extend to biological material obtained from the propagation or multiplication of biological material put on the market in the territory of the European Economic Area by the patentee or with his express consent, where the propagation or multiplication necessarily results from the application for which the biological material was marketed, provided that the material obtained is not subsequently used for other propagation or multiplication.

- *Utility Models:*

Act XLVIII of 2001 on the protection of utility models (Act on Utility Models)

Section 17 (2) With respect to the [...] limitations and exhaustion of utility model protection, the common provisions of the Patent Act [...] on limitations and exhaustion of patent protection shall apply *mutatis mutandis*.

- *Designs:*

Act No. XLVIII of 2001 on the Legal Protection of Designs (Design Act)

Section 18 - The exclusive right of exploitation conferred by design protection shall not extend to acts concerning a product embodying the design put on the market in the European Economic Area by the holder of the design protection or with his express consent.

- *Topography of microelectronic semiconductor products:*

Act No. XXXIX of 1991 on the Legal Protection of Topographies of Microelectronic Semiconductor Products Section 7 (4) (d) Protection of the topography shall not cover marketing of the topography or of the semiconductor product incorporating the topography, put on the market by the owner or with his consent, in the European Economic Area.

Is there a particular leading case you could mention?

Unilever vs. V-Contact case (Metropolitan Appellate Court case Nr 8.Pf.20.989/212 and Kúria Nr Pfv.IV.20.166/2013/9) – The defendant V-Contact Kft bundled by using

transparent foil his own products (Perlux) with Unilever's products branded with reputable trademarks (Domestos and Coccolino). The Court established trademark infringement and held that V-Contact Kft cannot invoke the exhaustion of trademark rights since bundling serves the marketing of its own products and such conduct is not necessary to the supply of Unilever's product to the end user. In this case, bundling infringes functions of the trademark, such as identification of commercial source and advertising; moreover V Contact Kft also took unfair advantage of Unilever's well known marks.

Does the principle of exhaustion of IP rights find limits in your national law? And, if yes, to which extent?

Yes. Regarding trademark rights and patents, the IP owner may oppose the commercialization of the product, if it has a legitimate reasons to do so, for instance, if the condition of the goods have been changed or impaired. (Notably, this provision is the local transposition of Article 7(2) of the Directive 2008/95/EC (Trademarks Directive). For instance, change of conditions of the goods may refer to re-branding, re-packaging, or the IP owner may restrict or prohibit certain selling arrangements in order to protect the integrity of the brand which may be necessary in case of luxury products. Moreover, the IP owner may also oppose the sourcing of goods from parallel imports outside the European Economic Area. The burden of proof always lies with the defendant (reseller) regarding the prerequisites for exhaustion, such as the origin of goods. Also the relevant case law of the EUCJ applies.

In your personal opinion, does the principle of exhaustion of IP rights jeopardize the protection of IP rights as such? And if yes, to which extent?

If correctly applied, the principle of exhaustion should not jeopardize the protection of IP rights.

To which extent has the EU principle of exhaustion of IP rights influenced your national law?

Hungary is member of the European Union, therefore exhaustion of IP rights is also determined by EU law which is enshrined in various directives and regulations of the EU. Geographic scope of exhaustion is limited to the territory of the European Economic Area and IP owners cannot prohibit parallel trade between Members States. Regarding exhaustion, Hungarian case law generally follows the decisions of the CJEU concerning exhaustion of IP rights, such as Dior / Evora, C-337/95 and Copad / Christian Dior, C-59/08 (luxury goods); Viking Gas / Kosan Gas, C-46/10; Portakabin C-558/0; UsedSoft vs Oracle C-128/11, Zino Davidoff SA v A & G Imports, Levi Strauss & Co Ltd, Levi Strauss (UK) Ltd v Tesco Stores, Tesco plc and Costco Wholesale UK Ltd Joined Cases C-414/99, C-415/99 and C-416/99

Your personal remarks on this section

None.

2. “Traditional industry” / “On line industry”

In your country, is there a particular and accepted definition of “on-line industry” (and / or, if you prefer, E-commerce). In your national case law, are there cases that clearly distinguish “traditional industry” from “on line industry”?

Hungary is considered a growing market with regards to the online industry. According to Eurostat, 35% of the Hungarian internet users used internet in 2012 for purchasing online.¹

The definition of e-commerce is provided for in the Hungarian E-Commerce Act (E-Commerce Act) which implemented Directive 2000/31/EC on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (E-Commerce Directive). The Directive operates with the term of information society services which covers any service normally provided for remuneration, at a distance, by means of electronic equipment for the processing (including digital compression) and storage of data, and at the individual request of a recipient of a service. The E-Commerce Act - in addition to transposing the above definition - further specifies the term *electronic commercial service* meaning any information society service provided in the form of business operations where the purpose is to encourage the sale, purchase or exchange of and access by other means to any tangible and marketable goods, services, property or intangible rights. The above definitions are broad enough to comprise new technologies evolving by time such as m-commerce.

Is “on-line industry” (and / or, if you prefer, E-commerce) defined and or regulated in a particular way, in respect to “traditional industry”?

Hungarian IP legislation does not differentiate between the traditional and online industries except for those provisions which specifically regulates the rights and obligation with regards to the internet. However, there are more and more other laws adopted in Hungary which differentiate between the traditional and online industries, mainly from a consumer protection point of view. In particular, for example, specific legislation applies to the online conclusion of contracts and the new provisions on distance selling has just been came into force in Hungary. Also, the E-Commerce Act introduced specific provision related to the liability of the intermediary service providers, including the notice and take-down procedure applicable for content infringing IP rights.

Furthermore, the "country of origin" principle implemented by the E-Commerce Act may also be regarded as a particularity of the regulation of e-commerce with regards to the traditional industry. This is because the principle sets out that the provisions of the E-Commerce Act falling within the scope of the coordinated fields do not apply to those service providers providing services directed to the territory of Hungary who are established in an other EEA Member State.

¹ http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/4-15102013-AP/EN/4-15102013-AP-EN.PDF

3. Exhaustion of IP rights in “on line industry”

In your country case law, are there decisions in which the general principle of “exhaustion of IP rights” has been applied?

Yes, Hungarian courts have interpreted exhaustion of IP rights with respect to various intellectual property rights. As we elaborated in the answers to the first set of questions, Hungarian law follows EU legislation and case law with respect to exhaustion of IP rights. In the following, we are presenting some of the judgments of Hungarian courts with respect to the principle of exhaustion of IP rights.²

Decision Nr. 512/B/2004. (Constitutional Court of Hungary)

Remarkably, the constitutionality of exhaustion of trademark rights was challenged at the Constitutional Court of Hungary (CCH). The claimant alleged that it breaches the freedom of enterprise, fair competition and the right to property, because it allows the trademark owner to prohibit parallel import, which is harmful for the rights of the owner of goods.

The CCH pointed out that – contrary to the claimant’s argument – exhaustion of IP rights allows the free circulation of goods that have been rightfully put into circulation within the EEA. These rules mitigate the territorial nature of IP rights; therefore, it does not breach economic competition but enhances it. The CCH found that there was no direct contact between the rules regulating exhaustion of trademark and the freedom of enterprise and the right to property, so it did not investigate the constitutionality of the trademark law with respect to these rights. Consequently, the CCH reached the conclusion that the rules regulating exhaustion of trademark rights were in conformity with the Hungarian constitution.

Case Nr 8.Pf.20.136/2009/5. (Metropolitan Court of Appeal)

The court faced the issue whether recycling of the packing which bears the mark of a trademark owner falls under the scope of exhaustion. The litigation took place between soda water distributors. The defendant acquired empty soda water bottles, which bore the mark owned by the plaintiff. The defendant alleged that it was common in the industry that distributors filled the bottles which were originally sold by other distributors, and the defendant referred to the principle of exhaustion.

The court noted that exhaustion applies to situations in which the resellers, distributors sell the products bearing a trademark that were originally sold by the trademark owner. In this case, however, the defendant did not resell the original product, but used the original packaging to sell its own goods. Therefore, the defendant used the marks owned by another

² The description of the Unilever vs. V-Contact case (Metropolitan Appellate Court case 8.Pf.20.989/2012/4.) is presented in our answer to the first set of questions.

company to label its own product. The court reached the conclusion that the principle of exhaustion did not apply to this case, and rejected the defense of the respondent.

Case Nr 8.Pf.21.210/2010/5. (Metropolitan Court of Appeal)

The main issue with respect to the principle of exhaustion in this case was whether “quasi-exhaustion” applies to a situation in which a television organization broadcasts its program free of charge on terrestrial means, and a cable company transmits this channel to its customers for a fee, while the latter does not conclude a contract and pay a fee to the television organization.

The court indicated that the Hungarian law on exhaustion of copyright (which we elaborated above) applies only to cases where a copy has been sold within the EEA, which leads to exhaustion of the right of distribution. Consequently, exhaustion applies only to distribution of actual copies of the original work. Broadcast, however, shall not lead to exhaustion of the right of distribution, because the ownership of an actual copy of the work has not been transferred.

Has the “principle of exhaustion of IP rights” been applied in a similar or different way in “traditional industry” vis-à-vis “on-line industry”?

We observe that the principle of exhaustion is applied in a similar way in both “traditional” and “on-line” industry. However, it comes from the different nature of such activities that on-line uses may lead to issues and challenges which are different from traditional uses of IP rights.

The exhaustion of trademark rights has been dealt with by Hungarian courts in relation to domain names.

Case Nr 8.Pf.20.229/2011/4. (Metropolitan Court of Appeal)

In this case the defendant registered a domain name which was identical to a trademark of the plaintiff, and operated an online shop selling goods that were included in the list of goods designated by the plaintiff’s mark. The plaintiff alleged that this conduct breached its trademark rights. The defendant argued that the plaintiff’s rights were exhausted, because the defendant was also selling the plaintiff’s goods as a reseller.

The court pointed out that exhaustion may only be invoked with respect to goods bearing the protected mark and to the distribution of such products. In this case, however, the defendant referred to exhaustion in relation to a domain name, not products that were originally put into circulation by the trademark owner. The court, therefore, rejected the argument of the defendant.

Case Nr 8.Pf.21.062/2008/4. (Metropolitan Court of Appeal)

The defendant was rightfully selling products bearing the trademark of the plaintiffs. However, the defendant used the same mark for its own commercial activities as the name of the shop, its domain name and in its marketing materials, suggesting that its activities were linked to the owner of the mark. The defendant argued that the exhaustion applied and it was entitled to perform such conduct.

However, the court ruled that the defendant breached the plaintiff's trademark rights, as the exhaustion did not apply to a situation in which the defendant was using the mark in its own commercial activities, not only in selling the products bearing the protected mark. The court noted, however, that the defendant would have been entitled to communicate that it was specialized to sell these products and to use the marks with respect to aftermarket services offered with respect to the products bearing the mark. However, it was not the case in the particular proceeding; therefore the defense of the respondent was rejected.

If yes, what were and are the consequences of the different application(s) of the principle?

Non applicable.

A 2012 decision of the EU Court of Justice (the Oracle Case C-128/11 of July 3, 2012) has extended the principle of exhaustion of IP rights to computer programs distributed on-line (An author of software cannot oppose to the resale of his 'used' licences, allowing the use of his programs to be downloaded from the internet. The exclusive right of distribution of a copy of a computer program covered by such a license is exhausted at its first sale). Did this decision influence your national law or case law?

Hungarian law is bound by the preliminary decisions of the EUCJ. Therefore the Oracle decision must be followed by the courts.

Does a similar reasoning apply in your country to other categories of works distributed on-line (as opposed to software) ? How do you expect Oracle decision to influence the case law in your country in that respect ?

We are not aware that the Oracle decision has been applied by the Hungarian courts. The Hungarian group is of the view that based on the fact that the Oracle decision applies to software and the Software Directive is *lex specialis* [as it was also confirmed by the EUCJ in the Nintendo decision (C-355/12, para 23)] the principle laid down in the Oracle decision should only be applicable to software and only under the specific circumstances of that case (that is only in case of perpetual license) and the decision should not be applied to any other IP rights including works protected by copyright other than computer programs.

To what extent do contractual restrictions to the usage of works remain enforceable in case of exhaustion of the distribution right upon works distributed on-line ?

The distribution right should be exhausted only with respect to the right of transfer of ownership. Therefore, in the view of the Hungarian group the same principles should be applicable as in case of off-line distribution.

Did the 2013 US decisions on exhaustion of IP rights (US Supreme Court n. 11-697 of March 19, 2013 and US Supreme Court n. 11-796 of May 13, 2013) influence your national law or case law?

No.

Do you have elements that could provide evidence that those new cases in EU and US law have influenced the practices of “on-line industry”?

No.

Your personal opinion on this section

4. IP rights and on line industry: infringement and remedies

Does the concept “on-line infringement” of an IP right differs from a traditional infringement?

The Hungarian IP legislation does not differentiate between online and traditional infringement of IP rights.

However, it should be noted that the E-Commerce Act regulates a remedy available for IP right holders only in case of online infringements. This is the so-called notice and take-down procedure, as explained below.

What may be considered as an infringement on the digital platform (or on what is now called “Digital Single Market”) by the “on-line industry”?

Hungarian IP legislation provides a single regulation both for the online and traditional industries as to what may be considered an IP right infringement. The one exception provided by Hungarian legislation is the limited liability of intermediary service providers as introduced by the E-Commerce Act.

Which are the remedies available in case of an “on-line infringement”? Are the traditional remedies, available in (usual/normal) IP law, adequate and effective if and when applied to “online infringement”?

Hungarian IP legislation provides the same remedies in case of online and traditional infringements for the IP right holders. The current forms of remedies available in IP proceedings have been established as a result of the implementation of Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

In general, the following remedies are available for IP right holders in case of the infringement of their rights:

- (i) establishment of the infringement;
- (ii) cease and desist;
- (iii) give satisfaction by way of a declaration;
- (iv) provide information;
- (v) account of profits;
- (vi) seizure;
- (vii) transfer infringing goods to a specific person;
- (viii) recall of the infringing goods from the market;
- (ix) definitive removal of the infringing goods from the market;
- (x) destruction;
- (xi) alteration of infringing goods;
- (xii) damages.

In general, IP right holders are entitled to choose among the available forms of remedies by claiming one or more remedies. Remedies - except for damages - may be claimed irrespective of the culpability of the infringer, only the infringing activity should be established when granting them.

As a special remedy in connection with online infringements we mention the notice & take-down action as specified in the E-Commerce Act which implemented the E-Commerce Directive.

In particular, are there applicable and effective preliminary (interim) proceedings in your national law?

There are effective preliminary proceedings in Hungarian law. Preliminary proceedings specified in the Hungarian IP legislation do not differentiate between online and traditional IP infringements. The most commonly used proceedings is undoubtedly the interim injunction. An interim injunction may be granted in order to:

- (i) prevent imminent damage;
- (ii) maintain the status quo during a legal dispute, or
- (iii) protect the claimant's rights requiring special protection.

(iii) is presumed if the IP right holder can prove that its IP is protected and he/she is the owner or licensee of IP right. However, this presumption does not apply where 6 months have already elapsed from the beginning of the infringement or 60 days from the date on which IP right holder became aware of the infringement and of the identity of the infringer. Furthermore, the court will apply a balance of convenience test as the disadvantages caused to the infringer cannot exceed the benefits achieved by granting the interim injunction. The IP right holder would also be required to substantiate the legal grounds of the infringement.

It is possible to apply for an interim injunction before the filing of the claim. In this case, the court shall decide on the interim injunction "out of turn", but not later than within 15 days from the filing of a request to this effect. The court of second instance shall decide on any appeal filed against the decision on an interim injunction out of turn, but not later than within 15 days from the filing of the appeal.

In addition, the E-Commerce Act regulates the notice and take-down procedures which is, however, only applicable to online infringements.

In case of the infringement of copyright or trademark rights, caching, hosting and search engine service providers (but not access and network providers) must follow the notice and take down procedure laid down in the in order to qualify for a liability privilege.

Any IP right holder whose rights relating to any works, performances, phonograms, broadcast program, audiovisual works or database under copyright and neighbouring rights protection, furthermore, whose exclusive rights conferred by the Trademark Act are infringed upon by any information to which a service provider has given access is entitled to notify the hosting, caching, search engine providing intermediary service provider in a private deed with full probative force or in an publicly certified instrument for removing the information in question.

The notification must contain:

- a) the subject-matter of the infringement and the facts supporting the infringement;
- b) the particulars necessary for the identification of the illegal information;
- c) the IP right holders' name, residence address or registered office, phone number and email address.

Within twelve hours following receipt of the notification the service provider shall take the necessary measures for removing the information indicated in the notification, or for disabling access thereto, and shall concurrently inform in writing the recipient of the service who has provided the information that infringes upon the IP right holder's right (hereinafter referred to as "recipient of the service affected") within three working days, and shall indicate the IP right holder and the IP right holder's notice on the basis of which the information was taken down.

In case of an enforceable decision against an "on-line infringer", do any particular difficulties arise in executing it? In particular, do specific difficulties arise if the headquarters of the "on-line industry" are located in a foreign country? (Please, if your country is an EU member State, distinguish between executing the decision in another member State or in a non-member State)

Enforcement of a decision a against an foreign online infringer whose headquarters are located in a country outside of the EU meets obstacles. In theory, these difficulties do not exist in case the headquarters of the online infringer are located within the EU by reason of the applicability of Regulation Brussel 1. The same should apply - hypothetically - in case the foreign online infringer is located in a member state of the Lugano Treaty. In other cases, since basically there are no treaties applicable for the enforcement of decision concluded between Hungary and any non-EU and non-Lugano Treaty member countries, it is usually very difficult to enforce Hungarian decisions.

5. Conclusion and recommendations: your opinion

In your opinion, would a different application of the principle of exhaustion of IP rights in "traditional industry" vis-à-vis on-line industry, have positive or negative effects in the protection of IP rights?

The Hungarian group firmly believes that the same principles of exhaustion of IP rights should be applied in the traditional industry and the online industry, that is the exhaustion is only possible with respect of physical products and works and not applicable to online

appearances and copies. With other words only the right of transfer of ownership of the physical copy of work or product should be exhausted. Online exhaustion would simply deprive the IP right holders from the right to utilize their works.

In your personal opinion, is the digital platform and the word wide diffusion of internet changing the definition and application of the principle of exhaustion of IP rights? And, in general, of IP law?

The Hungarian group is of the view that broad use of internet does not and more importantly, should not change the definition and application of the principle of exhaustion of IP rights. Apparently, such phenomenon has neither changed the IP law fundamentally yet but rather the court practice applied the already existing terms and rules to the new industry. Since we considers the exhaustion of IP rights an imperative rule, one of the most important limitations of IP rights, court practice should not reach that point that they widen the scope of exhaustion by interpreting the existing rules.

In your opinion, is IP law as we know it adequate to face and regulate the increasing new phenomenon of the “on-line industry”? In particular, do you believe that the principle of exhaustion of IP rights should be adapted or tailored to face the new increasing phenomenon of the online industry?

As mentioned above, the Hungarian group is not in favor of adapting or tailoring the principle of exhaustion of IP rights if that would lead to any broadening of the scope of exhaustion.

Finally, do you have any recommendation for future regulation of IP rights on the digital platform?

No recommendation at this time.