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## A New Dimension for Hungary

*Creation is the victory  
of persuasion and not of force.  
Franklin Delano Roosevelt*

This year marks the 125th anniversary of the creation (application for a patent and public presentation) of the epoch-making Hungarian invention within the global electrical power industry, namely the transformer and the alternate current energy distribution system by the Hungarian *Déri-Bláthy-Zipernowsky*. The early blessings of transmission and distribution of electricity over long distances with little loss could already be enjoyed in European cities and cultural institutions applying public lighting within that decade.

In the field of exploiting creative energies, intellectual property protection has a similar role in intensifying useful performance: quality examination and legal protection increases market “tension” and range, minimizing the potential loss and facilitating practical utilization. Using a modern paraphrase: “*Transformare – necesse est.*”

Published traditionally on World Intellectual Property Day, the *Annual Report* of the Hungarian Patent Office (HPO) presents, embedded in our mid-term development strategy, our official activity and results of the year 2009 as an important slice of national innovation performance.

Our mission is to encourage technological, cultural and artistic creativity by means of industrial property protection and copyright, and to serve the legal, economic and moral protection of the benefits thereof. Exerting measurable influence on the activity of domestic innovation potential is only possible through a renewing official profile, user-friendly regulation, more proactive IPR diplomacy, and certain individual initiatives for innovation support and competition stimulation. Meanwhile, the considerations of fitting, as an equal partner, into the frameworks of global protection systems and the knowledge-based international economy should prevail alongside the skills of applying pioneering models.

The numerous achievements of 2009 should be interpreted against this background. The accession to the translation reform of European patents, the London Agreement, the modernized adaptation of the Madrid Union for international trademarks, as well as the establishment of the copyright system for the authorisation of the so-called orphan works were important stages in promoting the Hungarian economy and culture.

A more elaborate regulation of the payment of fees related to the protection of new plant varieties, an extension of the scope of industrial property procedures to be performed via an electronic route, a reorganisation of the annual maintenance fees for patents in an innovation-friendly way, without increasing the total amount payable for 20 years, as well as the almost five-hundred extraordinary, accelerated industrial property granting procedures all gave real momentum.

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\* President of the Hungarian Patent Office

The crisis of the world economy appears to stimulate the work of inventors and also the industrial property activity in Hungary. Despite the relatively modest indicators, reflecting the long-lasting anomalies of the domestic innovation system (which classify us sometimes into the closing-up category, sometimes into the lagging behind one, due to the two- to three-year delay in taking into account the national data by the *European Innovation Scoreboard*), in 2009 we belong within the few prosperous countries.

The number of domestic patent applications surpassed the figures of 2008 by 11%, that of the design applications by 13%, the number of domestic trademark applications in fact stagnated, contrary to the drastic fall in international trademark applications. Nevertheless, the continued shortcomings of industrial property awareness, the irresolute policy of inviting tender applications and the property relations within the Hungarian economy demand a new approach, a firm and transparent innovation target system and infrastructure capable of being monitored.

Increasing exports and foreign direct investment (FDI) are supported by the co-operation of a dozen influential national authorities, which develop a network in the pilot project *Patent Prosecution Highway* (PPH). In 2009, the HPO concluded bilateral agreements with the Japanese, the Finnish and the Austrian patent offices in order to mutually recognize, in an accelerated procedure, the positive results of one another's patent examinations. This expanding system of relations – besides recognizing our quality policy – may create an unprecedented option situation for domestic innovation workshops.

The endeavours of intellectual property rights enforcement, the mitigation of the damage caused by counterfeiting and piracy focus particular attention to the *National Board Against Counterfeiting* operated by the proactive responsibility of the HPO.

Macro-economic monitoring and evaluation, awareness raising and training of consumers and the employees of enforcement authorities, containment of the black economy by developing the tools of consistent IPR enforcement – these are the main objectives of the first strategic action plan, which is effective until the end of 2010. Our achievements are recognized by the statistics of the domestic sectors, by the first analyses made by the *European Observatory on Counterfeiting and Piracy* established by the European Commission with our co-operation at the end of last year, and by other international fora.

For Hungary and the European Union, 2010 is the kick-off year of *recommencement* after the crisis, of an *intelligent, sustainable and inclusive development strategy*. There is international consensus that the best chance for breakthrough and recovery is offered by promoting innovation and creativity. Intellectual property has a decisive role in this respect by effectively protecting the national knowledge base and cultural wealth.

Supporting the enterprises entering the European and global markets, enhancing the country's image and the nation brand, strengthening the competition potential of the creative, high value added driving industries are the industrial property pillars of the rebirth of the national economy.

Copyright keeps alive the national cultural industry and cultural "barter", it offers a sensitive regulating tool to protect the interests of Hungarian public and higher education, civilization.

Sustaining a stimulating economic environment, the responsibility and discipline of managing intellectual property are basic needs and, at the same time, success factors.

With all this in mind, we are able to assert our interests in European and international co-operation networks – and become highly esteemed partners, recognized co-ordinators in the preparations for the EU Council Presidency of 2011 – and in results thereof.

In the frames of the big challenge in respect of economic governance of the EC, the coordination of a more harmonized economic politics of the Member States ought to be started. It is obvious that this will imply also better protection and better enforcement in the field of intellectual property.

## **Creative Power Management**

### ***Development of the encouragement of the creative activity***

Saint Augustus explains the difference between the man and the animal among others with the existence of the intelligence. Both the man and the animal are beings with soul, but it is only the man who is able to conceptualize his own existence with the aid of the intelligence. To live and to know that we live: that's another matter. The brain carries the intelligence and this is the only organ of the man that is more perfect than the brain of any animal. The human brain is the source of all activities displayed in any fields of life in order to achieve a certain purpose. It is only the human brain that is capable of thinking, associating ideas by the aid of the intelligence and the creative power; this is the source of ideas and products and it is also the human brain where the realization is formed. In the field of culture, for example in certain arts, works of painting, sculpture or literature and music are created, from the idea to the ready work, by the artist alone, whereas in other arts, such as a theatrical performance or a feature film, the work is the result of a well-co-ordinated creative work of a group.

The process of development of the economy can be similarly characterized, with the difference that while the essential features in the creation of works of art have not changed during the past centuries, at most the styles and the means have changed, in the field of economy substantial changes have occurred. The laying of the foundation began during the process of the evolution into Man, when the man discovered the world around him and realized that by combining his knowledge he is able to transform his environment. Here began the implementation of the creative thoughts and the results thereof, the creation of the means and processes needed for the implementation.

In the first phase the invention, the implementation and the use of a product were concentrated in the same person. Everybody did everything himself. The division of labour began by the formation of the family, then by the extension of the family relation to group relation; the implementation was separated from the creator, and the trades and guilds came into being.

The recognition of those creating a work of art, an improved solution, an innovation with the aim of satisfying the demands of the seigneurs began already in the feudal society. In the course of time it was more and more realized that it is advisable to provide some form of remuneration to those enriching their seigneur with a work of art, with a new or improved solution. This reward, however, was the gift of the power, and the creator could not be sure that he would get any gift at all, and if yes, what kind of gift and how much.

People began to realize it already in the period of the decline of the feudal society and in the early capitalism that it is not enough to wait for new products assisting the development but

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it must be encouraged somehow. People realized that the most effective way of encouraging the creators is if the creator is aware of the prospective reward. Towards the end of the Middle Ages, the commonly used grant of a privilege seemed to be the most appropriate for this aim.

The exclusivity granted to the creators of new solutions for a given time, however, essentially differed from the privilege granted to favourites as a source of making money. This was for the first time realized in England, when the ruler was forced to create the Statute of Monopolies<sup>1</sup> in 1623. According to this statute, in cancelling all the monopolies, **only** the monopoly granted to the **first** and **true inventor** for 14 years was maintained. This is the date from which the development of the patent system is reckoned, because the requirement that “only the first and true inventor” is entitled to this, had not appeared before. Obviously, in the early times, owing to the slow spread of information and to the distance limits, it could hardly be examined whether the invention was new on a world scale. This statute ruled on this for the first time, and in the course of the development this was the requirement establishing the possibility of spreading widely.

The more severe conditions of patentability, the expansion of the possibilities of determining the absolute novelty as well as the development of the other conditions besides novelty raised the necessity to protect solutions which, though novel on a world scale, are of a lower level. In England a law was made in 1843 on utility models protecting industrial products<sup>2</sup>. In Germany, the utility model law was based on the recognition that many patents were maintained only for a short time because they, as seasonal articles, grew out of use soon owing to the change of taste. The industrial (taste) model protection proved to be insufficient for certain products because they comprised more novelty. That is why there was a need for such a form of protection which ensured less right than the patent but was stronger than the industrial model. Due to the initial conditions, the utility model protection can only be used even nowadays mainly for the protection of equipments, instruments. The countries in which the utility model protection has been introduced, regard it, irrespective of the name, as a small patent.

The fact that the requirement of absolute novelty can be examined more and more effectively, resulted in the increase of the number of inventions for which no patent could be granted in lack of novelty. So they are not protected in the given country. This and other reasons, for example the increase of the quality requirements, in the first place within large companies, made it necessary to encourage smaller but quantitatively not negligible solutions of local importance. This resulted finally in the establishment of the company suggestion systems. By the end of the 19th century the monopoly companies had been established and they realized that the use of the newest public solutions and the optimal improvement of the production conditions and the company trading can only be achieved by the contribution of the whole company collectivity. The organizations being formed of the workers went against all the arbitrary steps of the owners and finally the management was forced to regulate the possibilities of rewarding those who help the company by their suggestions in agreements concluded with

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<sup>1</sup> <http://www.copyrighthistory.org>

<sup>2</sup> Albert Oestrieth: Lehrbuch des gewerblichen Rechtsschutzes, Leipzig 1908, pages 163-164



trade unions, factory committees as well as in factory rules. This is how the suggestion systems within the companies came into being.

Finally, as a result of the development started in 1623, a new branch of law, the law of intellectual creations has been established, which is mentioned by a part of the commentators as intellectual property right. In the author's opinion, taking into view the original primary purpose thereof, the approach from the creator's side is better. The Hungarian civil law followed this approach, too, when codified "Rights related to intellectual products"<sup>3</sup>, extending thereby the protection to those intellectual products which are not protected by separate law. Property can be something which exists physically and of which, as a discovered thing, the man takes possession, or which came into being by the use, transformation of the natural environment, as a result of human activity (invented, created, prepared thing). The intellectual property is the product of the human brain; when it becomes public, the exclusivity of its creator ceases and it will become possible for other persons to take possession of the knowledge, and it requires the intervention of the law so that the protection of the personal and substantive right of the creator could be ensured henceforward.

In the twentieth century, the accelerating development produced new forms of creations which people tried to protect by the already existing forms of protection. The gained experience showed that the old means of protection are less and less capable thereof. The legislation can follow and satisfy the arising demands in a much slower manner. The slowness of the execution of law more and more queries the effectiveness of the traditional forms of protection.

Therefore, the enrichment of the society is possible, whether it is a creation in the field of economy or it is a cultural creation, only from the date on which the creation is made public. The law serves merely for ensuring the personal rights and monetary interest of the creator and for ensuring the appropriate reward to all those who contributed to the realization of the creation. Accordingly, the function of the law is to assist by its means the socially optimal effectiveness of certain processes.

### **Relationship between the intellectual creative activity and the economic development**

The process including the elaboration of technical intellectual creations, taking over of solutions elaborated elsewhere by licence agreements, adaptation and exploitation of unprotected solutions, until the start of the exploitation, is called *innovation* by the technical literature. The process of creating intellectual products and, based thereon, creating new processes and new devices is also included in the category of innovation. Though being aware of the thousand links these two processes, the intellectual creation and the physical-technical realization, are related with, it seems to be necessary to discuss the intellectual creation as a separate category, because both processes have segments which are independent from each other. Taking into account that we wish to lay the emphasis on the first part, in the following we shall call the process of creating intellectual products *invention*, and the term *innovation* will be referred to the exploitation of the intellectual products.

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<sup>3</sup> Act No. IV of 1959 on the Civil Code, Sections 86-87

Therefore the process of the realization of intellectual products consists roughly of three consecutive processes: ***invention > innovation > production***.

The intellectual products created at the stage of the invention form a pyramid, in which, above a certain level the products being new on a world scale can be found. The more significant progress they represent in the process of development, the higher they are placed. At the top of the pyramid there are the so-called pioneer inventions which have a fundamental influence on the development of the mankind, society and economy. Below the products being new on a world scale, there are, in several layers, depending on their importance, the products which have already become known somewhere but are capable of local innovation. The innovation can also be divided into two parts. The first is the ***original innovation*** forming the upper part of the innovation pyramid, aiming at realizing creations being new on a world scale. The other is the ***follower innovation*** (adaptation, imitation) relating to the reproduction of a solution which has already been known and used somewhere. This is for example the sale of a solution elaborated during the original innovation by means of a licence, or the innovation performed on the basis of an invention constituting local novelty.

The described changes in the patent system essentially aimed at satisfying the needs emerging as a result of the development of the invention and innovation. The law can follow with more and more difficulty the changes occurring faster and faster during the development, and thereby, in view of its original function, it becomes a pull-back force. Its survival was due to the fact that simultaneously with the reduction of its original function, it gradually became an almost monopolized means of competition for the big companies, in particular for multinational mammoth companies. The international treaties relating to the industrial property right involve in many instances the blocking of the development of the law and hinder the required development of the legal background in order to maintain the means of competition.

Accordingly, it can be established that in the late Middle Ages and in the morning of the modern times, even the epoch-making creations were primarily of local importance, due to the slowness of spreading. As a consequence of the development of the transport and the spread of information, the qualitative development and the realizability of creations being new on a world scale became quicker and quicker. At the same time the demand for ***follower innovation***, the local introduction of unprotected solutions which became free upon the expiry of the protection, accelerated as well. In the nineteenth century development and planning divisions were established within the companies, then towards the end of the nineteenth century the organization of suggestion systems (repair, factory) began within the companies.

### **The factory suggestion systems**

The factory suggestion systems have voluminous literature. The tourists are shown the letter-box on the wall of the doge palace into which, it is alleged, the citizens of Venice could drop their suggestions. Another trace leads to Sweden, where, according to a date from 1750, a royal committee had been established for handling suggestions<sup>4</sup>. As it is known, the first known

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<sup>4</sup> Siegfried Spahl: Die ersten 200 Jahre Vorschlagswesen. Manuscript of the presentation held on October 20, 1989

reference to the factory suggestion systems can be found in the factory rules of the Krupp plants from 1872<sup>5</sup>. The execution, however, began very slowly, because the workplace managers considered it their privilege to make suggestions and they were concerned for their employment.

In England and in the USA the first signs originate from 1880<sup>6</sup>; and at the end of the nineteenth century and at the beginning of the twentieth century in almost all European countries with developed economy we can find companies that have introduced the suggestion systems. During the second World-War, the Nazi German leadership used also the suggestion system during the total mobilization: instead of the voluntary contribution it introduced the obligation to report. The result of this was that while in 1939 around 100 companies used the suggestion system, by 1943 the number of companies increased to 35,000.<sup>7</sup>

In the USA the number of suggestions increased on a voluntary basis, too. In the last year of the war the working time of 8,000 workers was spared by the suggestions. In smaller places system administrators, whereas at larger companies departments dealt with the suggestion systems. In 1942, 35 experts of the suggestion systems established the National Association of Suggestion Systems (NASS), to which Canadian companies acceded as well<sup>8</sup>.

### **The Soviet model**

After the World-War I, as a consequence of the establishment of the Soviet state, the development of the suggestion system handled earlier as the internal matter of a company, divided into two trends. Outside of the Soviet Union the maintenance of the suggestion system remained the internal matter of each company organization; in the Soviet Union, however, a different solution was applied.

After the revolution of 1917, the complete nationalization cancelled the private enterprises and the managers of the state companies represented the owner state. Issues which earlier depended on the decision of the capitalist owners in the management of the company, were decided by the state, by issuing decrees and orders. The traces of the suggestion systems could be found in certain big capitalist factories of the Tsarist Russia. The new administration made it obligatory for all companies to apply, from among the methods used in the czarism, those regarded as desirable. The suggestion system was one of them, as they promulgated that the factory was owned by the workers and they considered that the suggestion system was suitable for augmenting this feeling. The suggestion was called innovation proposal and the accepted suggestion was called innovation<sup>9</sup>. The governmental control was realized by issuing decrees, and the mobilization of the workers was entrusted to the trade unions (naturally under the guidance of the communist party). This is how the innovation movement was started. Essentially this system had been introduced after the World-War II in the countries of the block established as a result of the communist take-over.

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<sup>5</sup> Werner Krafft: Das betriebliche Vorschlagswesen als Gruppenarbeit und Gruppenaufgabe. 1966 Berlin, page 40

<sup>6</sup> Siegfried Spahl, *ibid.*

<sup>7</sup> L. Rössinger: Kurze Überblick über die Geschichte des betrieblichen Vorschlagswesens. Publisher IDEE: ÖPWZ, Wien 1975, 2/75, page 4

<sup>8</sup> [www.eianet.com/about](http://www.eianet.com/about)

<sup>9</sup> The innovation accepted on the basis of the innovation proposal is not identical with the notion „innovation” relating to the development process

The regulation by decrees constituted an essential change. The range of suggestions coming under the ruling of a decree was centrally determined. The countries of the block, however, were not uniform in taking over the Soviet definition: they tried to take the different conditions into account. The uniform regulation within the country, however, had the consequence that the specialties deriving from the differences between the branches of industry as well as from the differences emerging due to the different geographical situation could not be taken into consideration. In this way, although some results could be presented, it did not have the expected favourable effect. They tried to be of aid, for example in Hungary, by issuing 11 innovation decrees till 1990 and each was aimed at rectifying the deficiencies of the former ones, by permanently amending not only the definition of the innovation but also the remuneration and the other conditions. It remained an unsuccessful effort in 40 years, in the Soviet Union in 70 years, to establish a uniform system which could have become successful at least in the majority of the companies. The captivation of the workers was a failure, too, which naturally cannot be placed entirely to the account of the "innovation movement". In an economic system, in which the wage-like payments are restricted at the state-owned enterprises, the innovation fee payable above these limits meant a breaking point. Those having bigger power at the company can come nearer to this possibility. Recognizing this, in Hungary, starting from the beginning of the new economic mechanism, from 1968, the payment of the innovation fee could be covered from the so-called wage fund or profit-sharing fund. The wage fund was prescribed by the supervisory ministry and all wages and overtime-wages had to be paid therefrom. The volume of the profit-sharing fund depended on the profit, and the premiums and rewards could be paid therefrom. In this manner the innovator came up against the other workers of the company and this naturally did not serve the development of the "movement".

After the defeat of the Soviet empire, the change-over to the market economy was a break-through point in the continuity of the innovation movement. Anyway, it can be stated that this was the first attempt to raise the task of mobilizing the creative potential to the level of the state; within the frames of the state capitalist economic mechanism, however, due to the other problems thereof, the attempt was doomed a failure.

#### **From the suggestion systems to the idea management**

Before the World-War II, the company management was only waiting for the suggestions of the employees, and the financial motivation was the driving force. In the second half of the twentieth century, it had already proved to be insufficient to rely on the spontaneous ideas of certain employees. The trading of the company required a quick and optimal solution of the problems. The attention had to be called to these problems and the solution had to be awaited from those who have met the given problem in their work and from whom creative thinking could be expected. It has also been found that the result can be achieved quicker and with greater certainty if more people, thinking together and giving ideas to each other, make their way to the solution. In Japan, after the World-War II, "quality circles" were organized at the companies. Owing to the characteristic properties of the Japanese people, these circles had spread all over the country very quickly and they formed a basis of the "Japan miracle" established by the sixties. This is proved by the fact that *by 1979 the number of the quality circles reached*

800,000<sup>10</sup>. The groups consisting of volunteers gathered at regular intervals in order to analyze their workplace problems and to elaborate suggestions for solving them. The original purpose of the quality circles was to develop the earlier dumping goods of inferior quality into quality goods; but after achieving the good quality it was extended to all improvements and developments, as an approved method.

After the World-War II, in the USA and in Western Europe, the methods, by which the teamwork could be well-organized and effective, were elaborated one after the other. The most famous is the brainstorming developed by A. F. Osborn<sup>11</sup>, who started to spread it through a foundation established in 1954. Osborn determined four fundamental principles:

- \* The participants should speak out their thoughts free of inhibitions: they must not be criticized.

- \* The more ideas come up during a predetermined not too long period of time, e.g. in half an hour, the better.

- \* It is allowed or even desirable to improve or supplement the suggestions made.

- \* The more unusual a suggestion, the better.

In the course of time a great number of methods and variants had been developed, which had been used both in groups having a constant composition and gathering in regular intervals, such as the quality circles, and in groups formed occasionally, depending on the task.

This is how the collective, managed searching for solution, being similar to the quality circles but applying also other methods, the Kontinuierlicher Verbesserungsprozess (KVP), was established in the German linguistic area.

Siegfried Spahl, the famous Austrian expert, the manager of Semperit BVW raised the issue that the VVW and BVW no longer cover the category being extended in the practice during the development. Spahl called this extended system "Ideenmanagement" and this was the subtitle given to his handbook issued the following year<sup>12</sup>. He saw the importance of the notion of "Ideenmanagement" in the exchange of experience and the resulting development<sup>13</sup>.

The concept of Ideenmanagement began to spread in Europe at the beginning of the nineties and its extent has been broadening ever since. It seemed to be necessary to define the joint collective term of BVW and KVP, and the "Ideenmanagement" of Spahl was the most appropriate for this. In the USA a further development occurred in the nineties. The NASS, in 1992 in Chicago, at the commemoration assembly celebrating the 50<sup>th</sup> anniversary of its existence received a new name: "Employee Involvement Association" and extended its range of activity as well<sup>14</sup>. Institutions dealing with "Idea management" were established and this term appears in the professional literature as well.

The definition, according to the German WIKIPEDIA, is the following:

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<sup>10</sup> Peter Engel: Japanische Organisationsprinzipien. Verlag moderne Industrie, Zürich, 1981, page 91

<sup>11</sup> Osborn, Alex: Applied Imagination: Principles and Procedures of Creative Problem Solving. New York, New York: Charles Scribner's Sons, 1953

<sup>12</sup> Siegfried Spahl: Handbuch-Vorschlagswesen. Praxis des Ideenmanagements. Verlag moderne Industrie, Zürich, 1975

<sup>13</sup> „Diese internationale Bewegung wird durch die Konzentration aller Kräfte zu einem umfassenden Ideenmanagement führen..." (This international movement will lead, by concentrating the forces, to an intensive idea management), Spahl, *ibid.*, page 10

<sup>14</sup> [www.eianet.org/about](http://www.eianet.org/about)



\* technical suggestions which do not offer the same conditions for the employer as the technical solutions protected by an exclusive right (simple technical suggestions),

\* BVW, relating to general, not technical suggestions.

The author examines primarily the common and the distinguishing features of the first 3 categories and the possibilities of the legal settlement. This article attracted the attention of the author of the present essay because this was the first time when the issue of the legal protection was discussed in a study, starting from the high level inventions to the simplest suggestions, included in a common system.

Kumm dealt with the issue of the creations from the side of the legal regulation, whereas the Hungarian Civil Code discussed the legal protection starting from the creation. This led to the thought that besides the examination of the law and the creation, *the comprehensive examination from the side of the third party, the creator, is missing*. The creation has its root in the creative mind, in the combination ability of the creator. Without him there is no creation, there is nothing to protect. Instead of creating a patent, a utility model or an innovation, the creator solves a problem which is by all means a creation from his point of view, in particular, if the creator does not work within the frames of an organization. Ányos Jedlik, the Hungarian Benedictine teacher, elaborated the principle of dynamo in 1861, independently from Siemens, but from the social point of view it is Siemens who is recognized as the only inventor, because he met the legal requirements and the exploitation is also due to him.

Even nowadays there are many creations wasting because the creator can only create, without having the possibility to realize and utilize the result. He does not have at his disposal the necessary pecuniary resources, the planning, productive background executing the implementation as well as the marketing capacity which is indispensable nowadays for the distribution. The solution is wasted, thus causing serious losses to the creator as well as delay in the development of the society. The position of the sole creators is extremely difficult and under the current circumstances, e.g. in Hungary, is almost hopeless.

Obviously, the service and employee inventions, the suggestion systems on which they are based, are extremely important in the life of the organizations and companies; this is, however, the surface only. The company needs employees who have combinative ability and are capable of creative thinking. The presence of such labour on the labour market can only be achieved by the aid of education. This is just like the relation between the producer and the trader. The trader buys the rape product but he is not interested in the efforts made by the producer in order to get from planting, growing to the start of yielding and to the rich crop. The organization gets "ready" creative employees being rich in ideas and it pays no attention to the way they became fitted for this. It uses the brain of the employees only, disregarding how it became creative.

There is another aspect pointing out the limits and the deficiencies of the idea management: the idea management provides solution only within an organization. It does not extend for example to the field controlled by the administrative organ, such as to the domiciliation directed by the administrative organization of the self-government, the mayor's office. This means among others that the idea management offers no solution for using the

creative power of people remained or got out of the organization. Especially, in a crisis, when the number of the unemployed is ever increasing, those in full possession of their creative power have no alternative but to retire and young people with creative power find no job, it seems to be of ever-growing importance to improve the utilization of the available creative capacity in the widest range possible and to avail ourselves of methods and means of education by which the creative potential can be continuously enlarged.

Therefore, if we examine the problems from the creators' side, two fundamental issues are to be examined in detail. *One of them is the preparation, education of the creative man for the creation and the other is the relation between the creator and the utilization of the creation.* The first issue requires pedagogical, psychological and sociological knowledge which form the precondition of educating for a successful creative work. Here we do not deal with the methods thereof, due to the lack of special knowledge, but we wish to elucidate briefly the need for it, by taking other standpoints into account.

As a consequence of the development, the structure of the human work has changed a lot and it is permanently changing. The ratio and the quality of the intellectual work have increased; at the same time, however, the ratio of people adequately qualified for this has decreased in the total population of the world. One reason is well-known: in the developed countries the growth rate of the population is significantly reducing: in many places it decreased, whereas in the under-developed regions, owing to the improving health possibilities and to the reduction of mortality the population is increasing to a greater extent than before.

The other aspect is mentioned much less frequently. The educational, teaching system does not follow or follows more slowly the preparation for the changed conditions. In our opinion, the lexical knowledge and the education are very important but in today's situation it would be sufficient to have it in a better selected and less voluminous manner. We find it much more important to develop the man's most important ability, the thinking, and in particular the creative thinking and the combination ability. The man is less and less satisfied with living his life as an automaton, doing robot work. Only few people can succeed in breaking free from this. Those being unsuccessful in breaking free often addict themselves to the alcohol, narcotics and other passions, and in the long run they become criminals. One important means of breaking free can be the education for creating, building, because the creative, building man who finds pleasure in his work will never destroy.

In examining and classifying the relationship between the creator and the utilization of the creation we shall take two standpoints into account. One is the position of the creator, depending on whether he performs his activity in an organization or he does not belong to any organization; the other criterion relates to the circumstance, whether the creation involves the solving of a problem connected with the internal operation of the organization or with his activity performed in a field being independent from his organization, i.e. he tries to find a solution for the problems of the everyday life outside of the organization. Taking these two circumstances into account, the following cases can occur:

A) The creator is an employee of an organization and his creation is connected with the internal operation of the organization or with the work of the organization done for a third party.



B) The creator is an employee of an organization but his creation does not fall within the scope of activity of the organization.

C) The creator does not belong to any organization and his creation constitutes the solving of a problem connected with the internal operation or scope of activity of an organization.

D) The creator does not belong to any organization and his creation provides a solution for a problem falling beyond the scope of activity of any organization.

From the four cases, case A) is the best managed, at least in those organizations in which the development activity and the protection thereof ensured by means of industrial property protection are appropriate and in which there is a satisfactory idea management.

Case C) is much more difficult, because the companies usually handle their problems as factory secrets and wish to solve them themselves. If it were not possible, they conclude a contract with an outside expert, in which contract the agreed fee extends to all those protected or protectable solutions which the expert makes use of in fulfilling the contract. If somebody discovers an error or deficiency in the products prepared by a producing enterprise which he can remedy, he will be in an extremely difficult situation, because if the enterprise learns his solution, it will be able to realize it without the creator. The independent creator is not in the same "weight-class" as an international mammoth company and the companies usually take advantage thereof. In such cases, and when the creator seeks for a realizer, a mediator carrying authority is required. According to mediators, a satisfactory agreement can be reached in maximum 2-3 instances from 100 cases, thus in many instances they set up a claim for 50-80 % of the sales value. Therefore it is advisable to employ a mediator which is a non-profit institution.

The situation of the creators is the most difficult in cases B) and D), because they do not know, whom to refer to. If they refer to somebody being incompetent, they often are not given even advice on the person who could be of help in exploiting their creation.

It can be stated that all over the world the problem can be solved almost only in case A); the creations belonging to the other three groups are lost in many cases.

The further supply of the creative capacity can be ensured by preparing the creative man, educating him for creation. The utilization of the existing creative capacity can be improved in case A), as mentioned above, by pushing the introduction of the idea management at the companies through informational work, and by assisting the companies through the refinement of the methods to improve the efficiency of the idea management. In addition to this, it has to be examined, how would it be possible, in case B), to prevent the really valuable solutions and ideas from being lost and to utilize them economically, which results in the enlargement of the creative capacity and the extension thereof to the whole society.

Obviously, at smaller enterprises, in which there is a direct contact between the owner or the management and the employees, the operation of such a system would be exorbitantly bureaucratic. The methods, however, are more or less applicable here, too. It is also indisputable that the introduction of the idea management cannot be enforced on an organization by laws; each organization itself decides whether it finds it necessary to involve the employees in solving the problems. This means that the government management, even if it

agreed with the conception outlined here, can do nothing else than to take measures acquainting the decision-making organs of the organizations, enterprises with the idea management, assisting them to recognize its usefulness (which, besides the pecuniary advantages, may involve a number of other benefits, such as the improvement of the “factory atmosphere”), by acquainting them with methods approved elsewhere, with the aid of suitable civil associations, to make suggestions.

Where the BVW is applied, a development of 100-130 years led to today's level. In the beginning it spread as a handed-down tradition among companies, because no subsidy was given. Its consolidation within an organization takes 1-2 years and its spreading depends on the experience gained at these organizations.

In respect of case B), the question which arises is whether it is sufficient to rely on the creativity of the members and the employees of organizations. In this manner 3 large groups are left out from the system of idea management: the unemployed people looking for a job, the pensioners and the students.

1) The number of registered and unregistered unemployed people is essentially higher than it would be allowable. A not negligible part of them is middle-aged, in full labour power.

2) A significant portion of pensioners is well-experienced, capable of work, creative and is in good health condition.

3) The creativity of young people in their years of study has been proved by numerous competitions. Although in respect of young people the primary task is to educate them for creativity, the utilization of the already existing creativity of young people is an important factor.

The answer to the raised question, according to the author, is unambiguous: for the whole society it is insufficient to promote only the more efficient operation of organizations by using the voluntary creativity of the employees. It is clear for everybody that one can get out of a “pit” only by using all the available forces. By using the means of the idea management already functioning elsewhere, by implementing the changes required by the circumstances, by elaborating new methods, considering all possibilities, the mobilizing force of the idea management has to be extended to the 4 groups mentioned, i.e. practically to *everyone*. However, not only the use of the currently existing creative resources is to be made optimally exploitable, but also the further supply is to be taken into account: the education for the creative thinking is to be dealt with. This extended activity can be called by its collective designation: Creative Power Management (CPM). It can be realized through civil persons and occasional or permanent collectives, who have knowledge of a certain field of life and find some changes necessary there. Accordingly, the CPM includes the idea management applicable in companies as well. The idea management and the earlier suggestion systems have an enormous literature. Therefore the applied methods are available and can be adapted by taking the different circumstances into consideration.

The CPM can be and also must be extended to every field of life. The CPM is a self-inducing process which starts with the help of an initial guidance but then it spreads like an avalanche both vertically and horizontally. Simultaneously the protection has to be developed as well, because if it proves to be useful it can be used, as all developments till now, for

purposes which are in contradiction with the interests of the society. The means of defence must be and also can be found by the help of the CPM.

There had already been an attempt for the CPM in the past: the mentioned Soviet model, the Soviet system of innovation movement and the author's certificate. They could not be viable due to the dictatorial control from above and naturally to the errors of the Soviet system, but perhaps it is just the analysis of these errors and deficiencies that can contribute to developing the proper means.

The propagation of knowledge can be the task of organizations being already involved in idea management. The state will also have task in the propagation of knowledge, in the organization and occasionally in the execution: for example remedying the liberally ruined education. The part of the state in this is similar to the part played in the social market economy: providing the necessary support for the start and the development of the CPM, for the necessary protection for the civil organization, municipalities etc. aiming at mobilizing the creative power outside of the companies, inciting the execution and promoting the introduction and spreading of creations accomplished during the work.

## **FINAL THOUGHTS**

The aim of this essay was to draw the attention, by referring to the extraordinary result of the idea management, to the possibility of developing the creative potential and of the intensive use thereof.

One example from the many. The improvement of the employees' mood and their loyalty to the company is considered as one of the great advantages of the suggestion system and the idea management. There are many communities, for example in Hungary, in which it would be highly necessary to improve the "microclimate" between the majority and the minority. One could make attempts, with a creative group formed by the participation of those being more intelligent from the opposing parties, to elaborate solutions which would improve the life of the settling and would reduce and finally even put an end to the conflicts.

We deliberately avoid conveying further thoughts relating to the start, means, methods of the "creative power management", to the possibilities of its quick spreading, to the incitement thereof and to the activation to participate therein. If the realization seems to be necessary and we have succeeded in arousing the interest, a number of ideas will start up in the interested people having creative thinking.

However, there is one precondition I would like to mention. The foundation can be laid exclusively by those who are ready to participate not for the purpose in itself, not with the aim of making their own profit, but who see the object only, who aim at healing and strengthening the sick society. The co-operation is possible only with those persons who do not seek for reasons why things cannot be solved, but who try to find the solution even for problems looking insoluble.

## COEXISTENCE AND CONFLICTS BETWEEN TRADEMARKS AND GEOGRAPHICAL INDICATIONS IN HUNGARY

The notion of trademarks and geographical indications as legal terms are pretty far from everyday usage where the word „brand” is commonly used to designate – simplifying things – trademarks and geographical indications either. Recently, a new word, *Hungaricum*, became very popular - it has been widely used recently as an indication of source in respect of goods of Hungarian origin. Sometimes Hungary-related geographical indications are mentioned as *Hungarica*. It should be noted that *Hungaricum* as a word actually does not necessarily mean that the goods bear a geographical indication or can refer to goods of any quality manufactured in Hungary

The actual Hungarian Trademark Act (No. XI. of 1997 - TMA) covers the legal protection and status of trademarks and geographical indications, either. Thus, the legal judgement of coexistence and conflicts between trademarks and geographical indications is facilitated. Furthermore, while the Hungarian legislation defined the legal status of geographical indications, it fulfilled, at the same time, its tasks coming from the obligation of harmonisation of TMA to the Community law before the country's accession in 2004. On the other hand, these two legal institutions belong to different fields in the Community: trademarks are governed by company law while geographical indications of agricultural products, wines and spirits, divided into several areas, are regulated in the framework of CAP [Common Agricultural Policy].

Trademark law (just as patent law or competition law etc.) offers a regulation tool for defining the legal framework of free flow of goods and services, in order to avoid various conflicts of interests between companies, consumers or states etc.)<sup>1</sup>

Since the Hungarian Trademark Act has entered into force, wine law has been developing in a great extent on national and Community level either. The legal aspects of wine law including relationship between geographical indications and trademarks, were summarized in the PhD theses as well as in other studies of J. E. Szilágyi.<sup>2</sup>

### The introduction of the concept of geographical indications in the Hungarian law

International public law forms of protection of geographical indications were established in the end of the 19th century in the form of bi- or multilateral international agreements, while the development of trademark law turned into multilateral international treaties.

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<sup>1</sup> A. *Vida*: Közösségi védjegyjog és közösségi védjegy Magyarországon (Community Trademark law and community trademark in Hungary) In: Fehér könyv a szellemi tulajdon védelméről, Budapest, Hungarian Patent Office, 2005, p. 24

<sup>2</sup> J. E. *Szilágyi*: The regulation of geographical indications in multilateral international agreements with special attention to the TRIPS. A PhD study, Miskolc, 2008 [http://www.mjsz.uni-miskolc.hu/-200802/8\\_Szilagyi.pdf](http://www.mjsz.uni-miskolc.hu/-200802/8_Szilagyi.pdf)

Geographical indication as a generic term - in accordance with Community rules - covers geographical indications and geographical names without forming a hierarchy between these two forms in those countries, where both forms are protected.

The first multilateral treaty, the Paris Convention for the Protection of Industrial Property of March 20 1883 (revised at Brussels on December 14, 1900, at Washington on June 2, 1911, at The Hague on November 6, 1925, at London on June 2, 1934, at Lisbon on October 31, 1958, and at Stockholm on July 14, 1967, and amended on September 28, 1979), recognized indications of source of origin and appellations of origin only, consequently, the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration of October 31, 1958, [revised at Stockholm on July 14, 1967] is intended to grant international protection of appellations of origin, establishing and maintaining a special international registration system.

Legal protection of geographical indications in different countries is based on state recognition by statutory or administrative acts. An especially developed and differentiated professional system relating to wines, the so-called wine law emerged as a separate field of regulation.

The concept of geographical indications was first introduced and regulated for the first time into Hungarian law by TMA, Part Seven, from July 1, 1997. Until then, the conditions of granting protection of appellations of origin in the country, as preconditions of obtaining international protection through the Lisbon Agreement, could have been established by interpretation of the Lisbon Agreement, since Hungary promulgated its membership to the Lisbon Agreement in 1982 (Law-decree No. 1 of 1982). There were some concerns about the question of particular conditions which had related to obtaining protection of an appellation of origin in Hungary as a country of origin or about ceasing protection in the country (since international protection ceases to have effect when the protection in the country of origin lapses).

Although from 1982 to 1997, in the absence of *sui generis* national legislation, it was rather difficult to obtain protection on the international level, 28 international appellations of origin coming from Hungary have been forwarded to WIPO. By the TMA the Hungarian legislator created the national register of geographical indications by copying the particulars of these 28 international registrations in the newly opened register. This solution was based on the obvious fact that while the subject matter of these appellations of origin was apt to be protected in Hungary as a country of origin, no national registry did exist.

When the TMA was worded, the intention of the Hungarian legislation was to harmonize the Hungarian law with Article 22 of the TRIPS Agreement and – at the same time - to meet requirements coming from the harmonization with the Community system.

During the above-mentioned period, Directive No. 89/104/EEC laid down the framework for the harmonization of laws in the field of trademarks. Bearing in mind that *sui generis* protection of geographical indications, based on the institutions of industrial property, did not (and still does not) exist in many countries, the institution of collective marks took part among the options for replacement.

The TMA governs the registration of geographical indications and provides that the rules of procedure relating to trademarks are to be applied in respect of geographical indications as well in many aspects (cancellation or termination procedure, court procedure etc.).

It became apparent only later that, while *sui generis* protection for geographical indications had been established and is maintained in Hungary, the option for registering geographical names in the form of collective marks is rather disturbing and does not seem to be too advantageous.

When regulating collective marks as a special type of marks, the TMA - unprecedentedly - gave exemption for this type from an absolute ground for refusing protection, namely collective marks could be geographical names denoting even the place of production etc. Collective marks form a type of marks based on a membership of users. In order to avoid that the collective mark registered as geographical names would disturb normal economic relationships, the original wording of Sec. 97 para (3) of the TMA provided „If the collective mark consists exclusively of an indication of geographical origin, the regulations must provide that any person whose goods or services originate in the geographical area concerned shall be authorized to become a member of the social organization.”

As a consequence, the Hungarian legislation made the necessary change and banned the opportunity to register collective marks consisting exclusively of a geographical name. (It should be mentioned here that no applications for a collective mark consisting exclusively of a geographical name were filed with the Hungarian Patent Office between 1997 and 2004.)

There are even interpretations preferring parallel protection of geographical indications and trademarks, respectively. „A group that benefits from “protected designation of origin” (PDO) or “protected geographical indication” (PGI) may also apply for a collective trademark for their GI product’s name or graphic representation. The PDO/PGI designation provides a protected indication of quality and origin relationship that is separate from other intellectual property rights. Therefore, trade-marking, i.e. a collective trademark, can confer additional intellectual property rights protection.”<sup>3</sup>

In the light of the above amendment of the TMA, a distinction should be made between marks consisting exclusively of the geographical name and marks consisting of geographical names or abbreviations thereof and some kind of distinctive element or elements (a word, a device etc.) Marks belonging to the latter type are obviously welcome.

The 2003 amendment of the TMA was first to introduce not only interface rules between the Hungarian law and the Madrid System of international registration of trademarks and the Community Trademark System, respectively, but the new Chapter XVII/A introduced interface rules to the Community protection of agricultural products and foodstuffs and the new Chapter XVII/B to the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration

All these interface rules are effective from May 1, 2004, the day of accession of the Hungarian Republic to the European Community.

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<sup>3</sup> See: Guide to Geographical Indications: Linking products and their origins, Geneva: ITC [International Trade Center], 2009. p. xxi

While the said interface provisions clearly meet the requirements connected to this country's international obligations, however, the changes, amendments in Lisbon and mainly in the Community rules require changes and the review (and the amendments, eventually) of the provisions in the Trademarks Act. Since 2004, this has also been made several times: for agricultural products and foodstuffs as traditional certificates of specific character (Council Regulation (EEC) No. 509/2006) and geographical indications and protection of designations of origin (Council Regulation (EEC) No.510/2006), and the new legislation: Council Regulation (EEC) No. 479/2008 invoked amendments of the Hungarian Trademark Act and still invoke current legislative obligations.

### **Coexistence and conflicts of trademarks and geographical indications**

Compared to the millions of trademarks registered throughout the world, the number of protected geographical indications is rather limited. For example, the registration number of international trademarks in Hungary exceeds one million – at the same time, the total number of appellations of origin registered in the framework of the Lisbon Agreement is still below one thousand). The significance of conflicts, however, does not depend on the qualitative approach. If a conflict arises between trademarks and geographical indications, the case is usually of high importance. Legal provisions - among others – include norms to resolve these conflicts.

Since geographical indications consist always of words, signs containing non-verbal elements can not form geographical indications. Consequently, only words play a role in conflicts between geographical indications and trademarks, namely not only identical but confusingly similar words as well.

In the event of collisions between geographical indications and trademarks, priority issues are regulated by Article 14 of Council Regulation (EEC) No. 2081/92, issued on July 14, 1992 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs providing that the application for registration of a trademark relating to the same type of product shall be refused, provided that the application for registration of the trademark was submitted after the date of the publication of the GI in the Official Journal of the European Union.

Similar rules are provided by Article 14 of Council Regulation (EC) No. 510/2006 of March 20, 2006 on the protection of Geographical Indications and Designations of Origin for agricultural products and foodstuffs under the subtitle Relations between trademarks, designations of origin and geographical indications.

(„1. Where a designation of origin or a geographical indication is registered under this Regulation, the application for registration of a trademark corresponding to one of the situations referred to in Article 13 and relating to the same class of product shall be refused if the application for registration of the trademark is submitted after the date of submission of the registration application to the Commission.

Trademarks registered in breach of the first subparagraph shall be invalidated.

2. With due regard to Community law, a trademark which has been applied for or is registered, the use of which corresponds to one of the situations referred to in Article 13 or

established by use, if that possibility is provided for by the legislation concerned, in good faith within the territory of the Community, before either the date of protection of the designation of origin or geographical indication in the country of origin or before January 1, 1996, may continue to be used notwithstanding the registration of a designation of origin or geographical indication, provided that no grounds for its invalidity or revocation exist as specified by First Council Directive 89/104/EEC of December 21, 1988 to approximate the laws of the Member States relating to trademarks or Council Regulation (EC) No. 40/94 of December 20, 1993 on the Community trademark”).<sup>4</sup>

A new provision regulating the collision of a trademark application with an earlier geographical indication has been introduced in the TMA in the form of a new absolute ground for refusal.

According to Sec. 3 para 4) of the TMA „A sign may not be granted trademark protection if it consists of or contains a geographical indication registered pursuant to this Act or to European Community law. This provision shall apply to goods which do not originate from a geographical area corresponding to the geographical indication or in connection with which the geographical indication cannot be used for any other reason on the basis of the provisions of this Act or of European Community law.”

At the same time, Sec. 106 para 1 point c) of the TMA Amendment Act No. CII of 2003 provides that a geographical indication shall not be granted protection if it is identical with or similar to an earlier trademark and its use – due to the knowledge, reputation or lasting presence on the market of the trademark – would result in a likelihood of confusion on the part of consumers.

It is less obvious that words not being geographical names are excluded from protection of geographical indications. This uncertainty is caused partly by the rules that are also understood in the sense of protection of origin enabling the certification of traditional specific qualities of agricultural products and foodstuffs since the naming of such agricultural products or foodstuffs is not made or not exclusively effected by geographical names.

In Hungary, the Supreme Court pronounced the final words relating to the deletion of appellation of origin BUD (for beers) of Czech origin. This appellation of origin, protected under the Lisbon Agreement in Hungary, was finally deleted since BUD (abbreviation of Budweis - Budejovice) was not a geographical name, therefore, this word could not benefit from protection of geographical indications (Pfk.IV. 21.962/2006).

When a trademark application is applied for that contains a geographical indication as a verbal element and contains a specification of goods relating to agricultural products, foodstuffs or wines, under the constant practice of the Hungarian Patent Office protection can be granted with a specification of goods reflecting the veritable relationship between the mark as applied for and the geographical name. (For example, a combined mark containing the word TOKAJ can not be allowed to be protected for „Wines” (= wines originating from everywhere) but limited to

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<sup>4</sup> See A. Jókúti-Á. Szabó: A földrajzi árujelzők közösségi és hazai szabályozása (Regulation of geographical indications on Community and domestic level), Fehér könyv a szellemi tulajdon védelméről, Budapest, Hungarian Patent Office 2005, 94 and the following pp.



e. g. „Wines from the Tokaj vinicole region” or „Wines originating from the territory of appellation of origin Tokaj.” This question could arise mainly where the owner of a mark is an outsider with respect to the geographical area indicated by the geographical name forming an element of the mark. This practice is based on the strong belief that consumers could be easily misled where these goods are originating from a different place (country, continent etc.) that is clearly indicated in the verbal element of the mark. (It should be noted that the same practice is followed by France and Switzerland, while e.g. OHIM - seemingly - does not pay special attention to this issue).

The leading case in respect of the criteria of registrability of geographical names as trademarks is still the judgement of the European Court of Justice of May 7, 1999 which has to be taken into consideration ("Windsurfing Chiemsee", C-108/97 and C-109/97).

A German district court of Munich referred to the European Court of Justice for a preliminary ruling on the interpretation of Articles 3(1)(c) and 3(3) of the Trademark Harmonization Directive.

The main points of this decision<sup>5</sup> are:

Proceeding from the wording of Article 3(1)(c) of the Directive which refers to "indications which may serve to designate geographical origin" the Court concludes that it is sufficient for a term to be non-registrable if it designates a place which is currently associated in the mind of the relevant trade circles with the category of goods concerned, or if it is reasonable to assume that such an association may be established in the future. Specifically, the Court states that, for Article 3(1)(c) of the Directive to apply, it is not necessary for the deciding authority to assess the existence of a "real, current or serious need to leave a sign or indication free ("Freihaltebedürfnis")" as established by German case law. Furthermore, it is not necessary for the goods to be manufactured in the geographical location concerned in order to be associated with it; other ties between the goods and the geographical location may be sufficient, such as the fact that the goods were conceived and designed there.

The Court furthermore deals with the question what requirements must be met in order for a mark to have acquired distinctive character through use (Article 3 para 3 of the Directive). The Court holds that, where a geographical designation has gained a new significance and its connotation, no longer purely descriptive, it justifies its registration as a trademark and no further differentiation is permitted as to the importance of keeping the geographical name available for use by other undertakings. It furthermore states that in determining whether a mark has acquired distinctive character by use, the competent authority must make an overall assessment of the evidence, and provides the national authorities with detailed guidance as to the aspects to be taken into account in assessing the (acquired) distinctiveness of the mark concerned. The Court also states that the national authority may have recourse under the conditions of its national law to an opinion poll.

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<sup>5</sup> An excellent concise summary of this decision can be read at <http://www.communitytrademark.org/miscellaneous/misc/misc-001.htm>

Szilagyi points out that the above decision led to the liberalization of the formerly strict German jurisdiction. This preliminary decision shall govern the practice of the competent Hungarian authorities.

What should be emphasized here is not the mitigating of severity in the field of trademark registration proceedings but rather the collision of trademarks and geographical indications, the possibility of confusion among consumers. This is reflected in the above-mentioned wording of the Trademark Act in force. This also excludes a simplistic decision in respect what is excluded from trademark protection. If there is little likelihood that the interested circles should consider that the goods originate from this location, there would be nothing against the coexistence.

### **The coexistence of trademarks and geographical indications**

As we pointed out, under the actual practice words forming registered geographical indications can not be registered as trademarks, parallelly. The practice in foreign countries, however, shows several varieties in this sense.

Another question is how the conflicts between generic names and geographical indications or trademarks can to be settled.

Sec. 105 of the TMA provides that a geographical indication shall not be granted protection if in the course of trade it has become the common name of a product irrespective of whether the product originates in the place specified by the geographical indication. On the other hand, after its registration, a geographical indication may not become the common name of a product.

When a conflict arises between trademarks or trademark applications and generic names incorporating or exclusively consisting of geographical names, a complex approach is sought: in a recent case, the registration of the word PANNONIA in respect of cheese was ordered by the Metropolitan Court<sup>6</sup> denying that this word had been a generic name for the products in Hungary. In the meantime, the word PANNONIA (Latin name of Western Hungary) was removed from the relevant pages of the official Codex Alimentarius Hungaricus (Hungarian Food Book). The Court stated the word PANNONIA regained its distinctivity and apt to be registered as a trademark.

At the same time, the Court took into consideration that the applicant held other device marks indicating the word PANNONIA and pronounced that there was a case of family of trademarks.

In addition to the harmonic legal regulation of trademarks and geographical indications, the establishment of the organizational system can help protection of origin turning into a real protection reflecting valuable national traditions.

The legal rules [in Hungary] cover not only the powers of the Ministry of Rural Development but the responsibilities of the Hungarian Patent Office in this field. In order to reach that intellectual property aspects, that is technical aspects of industrial property, be

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<sup>6</sup> See <http://www.origo.hu/uzletinegyed/jog/uzleti/20100422-birosagi-dontes-a-pannonia-sajtrol.htm> - see also the article of *Vida* in this issue of AIPPI Proceedings, chapter on Trademark Family

considered among professional aspects, the Hungarian Patent Office is also represented in the Hungarian Council for the Protection of Appellations of Origin by a high-ranking official.

A typical view of experts in the field of wine law is expressed by J. E. Szilágyi: "I believe that the relationship between earlier registered trademarks and later geographical indications with the EC rules on geographical indications will continue to be based - in the same manner as Council Regulation No. 2081/92 - on the co-existence and not on principle of exclusivity of trademarks. The WTO panel process, principally, has confirmed the legitimacy of this regulatory model. For answering the question of coexistence of two indications of goods in a particular case, the problem of deception of consumers will play an important role. It would be avoided, anyway".

The development challenges again and again either the legislation and the law enforcement in this imposing area, both serving not only the protection of national values but will help to select Hungary's place in the world. It has been shown that it is not sufficient to call Tokaj a "world-wide known mark that everybody knows abroad", without a solid legal basis this statement would remain just a high-sounding declaration and apt to encourage ourselves only.

The author of the above lines expects, at the same time, that the industrial property approach of the legal questions in the field of geographical indications will become more and more universal and will help resolving questions which are, due to the divergence of professional views, too complicated today.

### Survey on Hungarian consumers' attitudes toward counterfeiting

After having conducted a representative survey of 1000 consumers on the attitudes toward counterfeiting in 2009, the National Board Against Counterfeiting (NBAC) conducted the survey in May 2010 again with the involvement of TÁRKI Social Research Institute. The NBAC examined not only the consumers' attitudes but also consumer behaviour relating to the purchase of counterfeit products. The results of these surveys are necessary to be able to map out an effective awareness raising strategy against counterfeiting on the one hand, and these data can serve as input to estimate the volume of counterfeiting, on the other hand.

#### *Consumer attitude*

Compared to the results of the research made in 2009 the number of consumers who refuse to buy counterfeit products has significantly increased, according to the survey carried out in 2010. 19% of the interviewed persons would consider buying counterfeit products and 5 % of them would purchase these products any time. Counterfeit clothing is in highest demand; every fourth Hungarian consumer is ready to buy it. Not original clothing is not really considered as fake by the consumers since quite a few of them responded that they refuse to buy counterfeits in general, though they are open to buy counterfeit clothing.

Examining the socio-demographic variables it can be found that the age strongly affects the willingness to buy counterfeit products: while 38% of the young respondents would purchase counterfeit products, this proportion is only 11% among the older respondents.

The answers to the question: "Would you knowingly buy counterfeit (not original, copied, of unreliable origin, illegally downloaded) products?" are summarized in the following table:

Product	Yes, any time		Perhaps		No		Don't know	
	2009	2010	2009	2010	2009	2010	2009	2010
Clothing products	29	14	38	26	32	60	1	0
Perfumes	15	8	25	17	59	75	1	0
CD/DVD	15	9	25	15	59	76	1	0
Software	12	7	21	13	64	79	3	1
Food	2	2	10	6	87	92	0	0
Medicines	1	1	6	4	92	95	0	0

#### *Customer behaviour in the previous year*

The actual behaviour was also examined in the survey:

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\* Legal Adviser, Hungarian Patent Office

16% of the consumers bought at least once counterfeit products in the previous year. Three quarters of these consumers bought fakes several times, one quarter of them only once.

Counterfeit clothing products are the most popular: according to the survey results every fifth Hungarian consumer purchased counterfeit clothing product in the previous year. Counterfeit perfumes are in the second highest demand; every tenth consumer bought such fake products in the previous year. CDs and DVDs follow in the list. The less popular counterfeit products are food and medicines of unknown origin, being potentially dangerous to health. Only 1% of the respondents bought medicines of uncertain source in the previous year, which means that 80 thousand consumers put their health at risk.

According to the survey every fifth young person downloaded film, music or software of illegal origin on the Internet in the previous year. An interesting result of the survey is that only every sixth Hungarian consumer answered that it is identifiable whether a film, music content or software available on the Internet is of legal or illegal origin.

What do Hungarian consumers think of counterfeiting?

The proportion of those who think that counterfeits are as good in quality as the originals decreased by 5% from 17% to 12% compared to the data from 2009. Nearly two-thirds of the respondents believe that counterfeit products are of inferior quality to the original ones. The overwhelming majority of the Hungarian consumers are not proud of the purchase of counterfeits but rather keep this fact a secret. Only every twentieth consumer would proudly tell his/her acquaintance about the purchase of counterfeit products.

Nearly 70% of the respondents are aware of the fact that counterfeiting causes serious losses to the central budget, more than 50% of them also believe that counterfeiting triggers loss of jobs. 69% of the respondents regard the distribution of counterfeits as a criminal activity, 7 of 10 consumers would impose more severe punishment on manufacturers and distributors of counterfeits. An interesting result is that 36% of the respondents would also support the idea to make the buyers of counterfeits liable to punishment.

The survey results are available on the homepage of the NBAC ([www.hamitasellen.hu](http://www.hamitasellen.hu)) in Hungarian. The Annual report 2009 of the NBAC can also be downloaded on this website.

The NBAC initiates and organizes awareness-raising programmes and campaigns in line with the objectives of the National Strategy Against Counterfeiting to provide consumers with information on the dangers, economic and social consequences of counterfeiting and on the importance of intellectual property protection. The NBAC's current campaign comprised exhibitions against counterfeiting entitled "Fake promises, real dangers" which were presented at 9 locations across the country in 2010.

## The Impact of the Judgments of the European Court of Justice on the Hungarian Trademark Law

### II

Three years ago I gave a short overview of the effect of the jurisprudence of the European Court of Justice on Hungarian trademark law practice.<sup>1</sup> In light of development in Hungarian legal practice, I believe useful to give further examples at this point.

After this short introduction, let us see the examples.

#### Distinctive Character

Distinctive character is a basic requirement of any sign intended to be used as a trademark. This is true all over the world.

##### *Factual background:*

The subject of the application was the word combination INTENSIVE CLEAN, which was intended to be registered as a trademark in Classes 3, 5 and 21, for basically toothpaste and toothbrushes.

The Hungarian Patent Office refused registration stating that the mark designates the intended purpose since the latter (for which they were manufactured) of the goods in the Class is that everything they are used for should become "intensive clean". The decision referred to Paragraph 26 of the judgment of the Court of First Instance in the COMPANYLINE case (T-19/99) where the Court held that "coupling the two terms together without any graphic or semantic modification does not imbue them with any additional characteristic such as to render the sign, taken as a whole, capable for the relevant public of distinguishing the applicant's services from those of other undertakings." In addition, the fact that the term does not appear in dictionaries, whether written as one word or two words side by side, does not in any way alter its appearance.

In its request for reconsideration, among others, the applicant objected to that the Hungarian Patent Office ignored two important judgments of the European Court of Justice on the subject of the combination of words, where the standard is whether the combination is different from the usual designation, namely the BABY DRY (C-383/99) and POSTKANTOOR (C-363/99) cases. The applicant also objected to that the Hungarian Patent Office based its decision on a judgment of the Court of First Instance which was not adjudicated on the second instance level. In addition, the court entered the referred judgment (T-19/99) bearing in mind the average English-speaking consumer, whereas typically the average Hungarian consumer does not speak English.

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\* Of Counsel, Danubia Patent and Law Office

<sup>1</sup> Hungarian Trademark News, 2007, p. 1

The Metropolitan Court dismissed the request for reconsideration. I will only cite those parts of the dismissing judgment where the precedents of the European Court of Justice bear some relevance.

The Hungarian Court held that the BABY DRY and POSTKANTOOR cases were not applicable because the word combination is not unusual or out of the ordinary. The court accepted that one cannot ignore that the range of consumers are not English speakers, but “in the case of more frequently used and simpler English words one can state that even consumers who do not speak English have met the word ‘clean’ in terms of similar products, as well as the word ‘intensive’ which is spelled differently in Hungarian but has the same meaning ... Through the word (clean), which appears on the packaging of several products, the average consumer associates the mark with the meaning intensively clean” (1.Pk.26.079/2009).

#### *Note*

The judgment is final. Instead of filing an appeal, the applicant – similarly to its competitors who registered trademarks that include the word combinations ultra clean, super clean, active clean – filed a new trademark application requesting registration of the word combination DONTODENT INTENSIVE CLEAN.

### **Likelihood of Confusion**

The likelihood of confusion of later signs conflicting with earlier trademarks is a typical reason for opposition or revocation.

#### *Factual Background*

The owner of the trademark SPORT filed an opposition against the Hungarian part of the international trademark Bosco SPORT. The earlier trademark was registered in Class 30 and the opposition was also regarding registration of the international trademark in Class 30. The grounds for the opposition were the likelihood of confusion of the later mark with the earlier trademark and the good reputation of the existing trademark.

In its decision upholding the opposition the Hungarian Patent Office held regarding the likelihood of confusion that when examining the “Bosco SPORT” mark and the existing trademark of the opponent, we must rely on the overall impression in respect of the visual, phonetic and conceptual similarities of the marks for the purpose of determining the likelihood of confusion, especially considering their distinctive and dominant elements.

The complex trademark, one or more component of which is identical with or similar to the trademark of another proprietor can only be considered similar to that trademark if such component is a dominant element of the overall impression created by the complex trademark.

According to paragraph 12 of the THOMSON LIFE judgment (C-120/04) of the European Court of Justice, “in order to appreciate the similarity of the sign at issue, it is necessary to consider the overall impression conveyed by each of the two signs and to ascertain whether the common component [in our case SPORT] characterises the composite mark to the extent that the other components are largely secondary to the overall impression.”

During the visual and overall examination of the “Bosco SPORT” mark and the existing “SPORT” trademark, the Hungarian Patent Office determined that in the mark being applied for the emphasis is on the second word component both in terms of letter size and appearance, whereas the first component is in handwriting type characters and difficult to read and rather different. The second element of the mark is more dominant, because the word SPORT, written in larger and thicker letters, almost rises from its surroundings. The likelihood of confusion stands since the identical component is emphasised in the mark at issue and does not merely contribute to the overall impression.

The phonetic analysis of the “Bosco SPORT” mark and the existing “SPORT” trademark led the Hungarian Patent Office to determine that they are largely similar. The conceptual analysis of the mark and the earlier trademark leads to the conclusion that since the expression “SPORT” appears in both marks and refers to sports and sport activities, they create an association with sport. It is true that the word “Bosco” in the mark contributes to the „Bosco SPORT” overall impression, however, in this case the word SPORT is dominant and it does not fade, it is not marginalized to such an extent that it becomes unsuitable for recalling the memory of the trademark.

Paragraph 36 of the THOMSON LIFE judgment of the European Court of Justice states that “in order to establish the likelihood of confusion, it suffices that, because the earlier mark still has an independent distinctive role, the origin of the goods or services covered by the composite sign is attributed by the public also to the owner of that mark.” The overall impression created by the “Bosco SPORT” composite mark in the consumer may be that the products are from related enterprises, so the likelihood of confusion stands.

In the overall assessment of the analysis in respect of the visual, phonetic and conceptual similarities, based on the overall impression of the mark and the earlier trademark, considering especially their distinctive and dominant elements and the impressions of average consumers, the Hungarian Patent Office found that there is a likelihood of confusion (case no. A891.834/18).

As I indicated earlier, the opponent invoked the good reputation of its SPORT trademark. The decision includes further reasoning in this respect, however, I have listed them in a footnote in order to ensure logical separation.<sup>2</sup>

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<sup>2</sup> The Hungarian Patent Office examined two relevant circumstances: first the reputation of the trademarks with earlier priority, second, whether the later application violates or abuses that reputation or violates or abuses the distinctive character of earlier mark.

The opponent submitted much evidence regarding existence of reputation, of which the survey conducted among Hungarian consumers was relevant. (According to the survey performed by GfK Hungária on knowledge of the SPORT trademark, 61% of participants knew this brand – A.V.) In its assessment, the Hungarian Patent Office determined that in Class 30 the opponent’s trademarks with earlier priority enjoy a significant reputation.

During the assessment of reputation and violation or unfair abuse of distinctive character, the Hungarian Patent Office considered it a relevant circumstance that the target groups are the same or largely similar.

The reason for the broader protection of trademarks with a reputation is that there is a feeling or a lifestyle associated with that reputation for consumers, so it had to be examined whether in the case of products belonging to the Class, the issue of transfer or reputation or image can take place.

Based on the evidence filed by the opponent and considering consumer behaviour, the Hungarian Patent Office found that in respect of the goods in the Class, there can be a transfer of reputation.



### *Note*

The decision is final. The decision of the Hungarian Patent Office shows that the good reputation of a trademark appears in the assessment of the likelihood of confusion, but the main part of the decision is regarding the likelihood of confusion and this is the part that includes the reference to the guidelines of the European Court of Justice. In my view, this was the correct way as good reputation is only relevant if there is likelihood of confusion. Methodically this case also serves as an example for when the adjudicator has the possibility to judge a set of facts based on two separate provisions of the law, thereby giving dual support to its decision.

### **Assessment of reputation**

The basic reason behind the broader protection of trademarks with a reputation is economic: obtaining such a reputation requires significant technical and commercial efforts from the proprietor of the trademark, and even so, there is no guarantee for acquiring such a reputation. Trademark law also acknowledges the result of such efforts [Sections 4(1)(c) and 12(1)(c) of the Trademark Act].

In light of the requirements related to broader protection of trademarks with a reputation, which are adapted by Hungarian trademark law from the EC Trademark Directive, it is not too frequent that the Hungarian Patent Office or the courts acknowledge that a certain trademark has a reputation.

The case outlined below did not even meet the first requirement: the existence of the reputation itself was disputed.

### *Factual Background*

The applicant applied for the registration of the international word trademark ZIPPO with unusual characters, in respect of lifting appliances and other tools in Classes 7 and 8.

The proprietor of the ZIPPO trademark, known for lighters, filed observations<sup>3</sup> requesting that protection in Hungary should be refused.

On this basis the Hungarian Patent Office refused registration. They referred to the fact that any Member State applying Article 5(2) of the Trademark Directive must interpret the contents of the Article as follows. In the case of third party use of a mark that is identical or similar to a mark with a reputation, the proprietor must also be granted protection in relation to goods or services which are not similar to those for which the trademark is registered.

The applicant filed a request for reconsideration against the decision refusing protection in Hungary, in which he referred, among others, to paragraph 49 of the judgment of the Court of First Instance in the TDK case (T-477/04), where the court set the criteria for having a reputation.

The Metropolitan Court reversed the decision of the Hungarian Patent Office and ordered registration of the trademark. The court pointed out that the Hungarian Patent Office merely conceded that the opponent's trademark has acquired a reputation. However, in the given case

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<sup>3</sup> The observation was filed on March 31, 2003. (After May 1, 2004, only opposition could be filed for a reason hindering relative registration.)

it is the Hungarian market that is relevant and this is where the reputation has to exist. The court held that the existence of the reputation had not been proven.

An officially known fact is a fact of which the officials of the Hungarian Patent Office are aware on the basis of their work. If, when establishing the facts of a case, the Hungarian Patent Office bases the existence of a fact on its official knowledge, the decision must point to the proceeding where such official knowledge originates.

A publicly known fact is a fact or circumstance that is known and accepted as true by a wider spectrum of people in a given place.

In the case at issue the Hungarian Patent Office did not indicate whether it holds the opponent's trademarks as having a reputation based on its official knowledge or public knowledge, and this cannot be concluded merely from the fact that the "opponent has several trademarks in Hungary".

The Court of First Instance held in the TDK case (T-477/04 paragraph 48) that in order to satisfy the requirement of reputation, the earlier trademark must be known to a significant part of the public concerned by the goods or services covered by the trademark. In examining that condition, all the relevant aspects of the case must be considered, including the market share covered by the trademark, the intensity, geographical extent and duration of use of the trademark, and the size of the investment made by the undertaking in promoting it (paragraph 49). In the case at issue, the Hungarian Patent Office examined none of the above circumstances.

Beyond the above, the court is not officially aware and does not consider it public knowledge that the ZIPPO trademark is well known in Hungary in the given Class of goods, so the court held that, for lack of evidence, the provisions of Section 4(1)(c) of the Trademark Act cannot be a hindrance to the registration of the trademark. (1. Pk. 22.260/2008)

#### *Note*

The judgment is final. The judgment of the Metropolitan Court is in line with the judgment of the European Court of Justice in the CHEVY case (C-375/97), requiring the Hungarian Patent Office to prove the circumstances under which it determined the reputation of a trademark, based on the request for reconsideration.

Of course it would have been more correct if the applicant had based its request on paragraph 24 of the CHEVY judgment and not on a judgement of the Court of First Instance. Of course, the outcome would have been the same, however, for the purposes of legal hierarchy, an ECJ judgment rendered in a reference case would have been more elegant.

We cannot forget that the issue of the reputation of a trademark raises questions as to the interpretation and application of the law by the courts of other countries as well, as indicated by the filings with the European Court of Justice.

### **Protection of a Family of Marks**

Neither the Hungarian Trademark Act, nor the Community Trademark Regulation contains any provisions as to the protection of a family of marks. It is therefore not surprising

that for a long time in opposition proceedings both the Hungarian Patent Office and the courts were reluctant to acknowledge a family of marks as relative grounds for refusal.

A change occurred when the Court of First Instance defined the concept of a “series” or “family” of trademarks in the BAINBRIDGE case<sup>4</sup> as follows:

“which may be the case, inter alia, either when they reproduce in full a single distinctive element with the addition of a graphic or word element differentiating them from one another, or when they are characterised by the repetition of a single prefix or suffix taken from an original mark.”

Atypically from usual procedures (i.e. referring to an earlier family of trademarks in an opposition), in the case described below this reference was invoked during the examination of distinctive character.

#### *Factual Background*

The applicant wished to register its figurative trademark “PANNONIA”, a cheese brand, as a word trademark as well. The Hungarian Patent Office refused registration for lack of distinctive character. The Metropolitan Court reversed the decision and ordered registration of the trademark. In the justification of the judgment the court held the following:

“The distinctive character is confirmed by the applicant’s PANNONIA trademarks existing at the time of the application, namely trademark No. 131 435 registered with priority date of December 5, 1990 and trademark No. 128 836, registered with priority date of September 19, 1989. The PANNONIA word component is dominant in these trademarks: in trademark No. 128 836 this is the sole component, only rendered a figurative trademark by the special writing and the coloured border framing the word at the top and bottom, whereas on trademark No. 131 435 the word “Pannónia” is in large letters in a central position so it is also dominant. The figurative PANNONIA trademark, applied for on the same day as this application, was already granted protection under No. 166 420. In this trademark, under the word component PANNÓNIA, written in bold and placed centrally, the words “Queen of cheeses” appear and above this word there is an image of hilly country with a farmhouse. The dominant element is the word PANNÓNIA.

According to the practice of the European Court of Justice, a family of trademarks are those similar trademarks that contain in full a single distinctive element that can be differentiated with the addition of a graphic or word element. There is no question regarding the distinctive character of the applicant’s earlier trademarks or that the PANNÓNIA word component is dominant. We cannot contend that the distinctive character of the earlier figurative trademarks is carried by the auxiliary, decorative or other figurative elements. And, if there was no quandary as to the distinctive character of the dominant PANNÓNIA word element at the time of the original registrations (1989, 1990), there is no reasonable explanation for the Patent Office’s refusal to register the PANNÓNIA as a word trademark in 2000, invoking the lack of distinctive

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<sup>4</sup> Paragraph 123 of the judgment in the BAINBRIDGE case (T-194/03). When dismissing the appeal the European Court of Justice (C-234/06), acting as court of second instance, did not deal with the concept of a family of trademarks

character and descriptive nature since by then, all references to PANNÓNIA as a cheese type were removed from the Hungarian List of Standards and from the milk industry's professional literature" (1. Pk. 26.585/2008).

#### *Note*

The judgment is final. It is obvious from the above, that the Hungarian court relied on the essence of the Court of First Instance's definition.

It is true that the full picture includes the fact that, in addition to referring to its earlier acquired rights, the applicant provided large numbers of promotional materials, commercial, data showing significant turnover and a public survey<sup>5</sup> (of which the Metropolitan Court accepted 43.9% knowledge of the product under the mark PANNÓNIA) to prove that the mark is well known. However, I will not refer to these findings of the judgment here. It is nonetheless necessary to note the above because the Court of First Instance emphasised the requirement of knowledge of "family members" by the public in order to grant protection to a family of marks, which requirement was met in the PANNÓNIA case.

Finally, we cannot ignore the fact that although there was but one party in this proceeding, i.e. it was not an opposition, registration of the mark was refused by the Hungarian Patent Office in large part based on the observations of a competitor of the applicant. (The observation was filed prior to the 2004 amendment of the Trademark Act.)

#### **Proof of Use of a Trademark**

Following publication of the C City Hotel mark, the proprietor of the City Inn community trademark No. 000615336 filed an opposition.

The applicant based its defence primarily on insufficient evidence of use of the opponent's trademark:



In its decision dated February 11, 2010, the Hungarian Patent Office rejected the opposition also due to lack of sufficient use. Below is a short summary of the relevant parts of the decision.

In respect of the requirements for proving actual use, the decision of the Hungarian Patent Office refers to paragraphs 37-38 of the preliminary ruling of the European Court of Justice in the *Ansul* case (C-40/01) and paragraphs 24, 25 and 27 of the preliminary ruling in the *La Mer Technology* case (C-259/02).

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<sup>5</sup> The survey was prepared by the marketing research firm *Taylor Nelson Sofres Hungary*. The 2nd question they asked was "Have you ever heard of the PANNÓNIA trademark?" with response of 77% being that it is the trademark of a cheese

Furthermore, the decision refers to the judgment of the Court of First Instance in the HIWATT case (T-39/01), which provides in paragraph 37 that “not only does [the requirement] of genuine use of a trademark exclude artificial use for the purpose of maintaining the mark on the register; genuine use means that the mark must be present in a substantial part of the territory where it is protected, inter alia exercising its essential function.” In this respect the decision contends that “if we were to accept the view that it is sufficient to prove use of a community trademark in a single Member State, the requirement of use of community trademarks would be weaker than the requirement applicable to national trademarks: if for example the mark was applied for in three Member States as a national trademark, there must be genuine use of the mark in all three to maintain protection in their territories. In contrast, an enterprise that ensures monopoly of use of its trademark for itself by acquiring a community trademark could enjoy protection in these three countries (and twenty four other EU Member States) by merely using the trademark in a single country.”

In the case at issue, the opponent operates six CITY INN hotels in Great Britain, with 353,000 guest nights and advertising expenditure of GBP 406,000 in 2008.

Finally, the decision states that the findings of the preliminary decision of the European Court of Justice in the PAGO case (C-301/07) are not applicable here due to the different set of facts. Namely, although the principle set forth in paragraph 37 of the ruling, whereby “the territory of a single Member State may be considered to constitute a substantial part of the territory of the Community can be applied by analogy to genuine use, the expression ‘substantial part’ is not identical to the expressions ‘in the Community’ or ‘in the entire Community’”. In addition to its subject which was reputation and not genuine use of a trademark, i.e. the application of an entirely different Article of the Community Trademark Regulation, this case was based on a completely different set of facts from the case at issue. In the PAGO case, the court established the reputation of a community trademark within Austria as against an Austrian national trademark, so the issue was not use in two different Member States. In other words, the local reputation of the community trademark coincided with the territory where the actual trademark conflict arose” (Case No. M 0911137).

#### *Notes*

1. The decision is final. I am certain that I am not the only one who believes that the findings of the decision regarding the differences between the PAGO / C CITY HOTEL cases are the most interesting.

2. The decision is in line with the study of the Vice-President of the Hungarian Patent Office on the issue of the territoriality of the protection afforded by the community trademark.<sup>6</sup> The main thoughts of the study are available essentially in the same form on the website of the Hungarian Patent Office in both Hungarian and English as a quasi official position.<sup>7</sup> The obvious conclusion is that the Hungarian Patent Office considers the theoretical issue of territoriality an important one.

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<sup>6</sup> M. Ficsor: The Requirement of Genuine Use. AIPPI Proceedings (Hungary) 2009, p. 37

<sup>7</sup> Statement of the HPO <http://www.hpo.hu> from 5 February 2010

3. Another notable fact is that the summary of the case appears both in Hungarian and English on the website of the Hungarian Patent Office.

4. More interesting is that in September 2010 in a European Parliament session this Decision of the Patent Office was discussed, with a disagreement.<sup>8</sup>

#### *Exhaustion of Rights Conferred by Trademark Protection*

The institution of the exhaustion of rights was introduced by the Trademark Act of 1997 (Section 16), first limiting it to the territory of Hungary and, following Hungary's accession to the EU, and extending it to the territory of the European Economic Area (EEA) - i.e. in 2004.

The justification of the Trademark Act invokes Article 7 of the EC Trademark Directive stating that the exhaustion of rights developed from the judgments of the European Court of Justice, interpreting the relationship between the free movement of goods and the territoriality of the protection of industrial rights, and the Directive comprises the essence of these judgments.

Experience shows that defendants in infringement actions generally invoke the principle of the exhaustion of rights,<sup>9</sup> which was the case in the lawsuit initiated for the infringement of the PALMOLIVE CLASSICO trademark, described below.

#### *Factual Background*

The proprietor of the trademark was notified by the Barcs Customs Office that the defendant attempted to export – among other goods – 1440 pieces of 80 gram PALMOLIVE CLASSICO soaps from Hungary. Subsequently the plaintiff established that the goods were manufactured 10-15 years earlier for the Mexican market, and were marketed in the EEA neither by the plaintiff, nor with the plaintiff's consent. In light of the time that has passed since the products were manufactured, their marketing at this time would jeopardise the trust placed in the plaintiff's other products, and the plaintiff has a lawful interest in preventing that the goods be distributed in any event.

The primary request of the defendant was that the Hungarian court should apply for a preliminary ruling from the European Court of Justice under section 155/A(3) of the Act on Civil Procedures in order to clarify whether the consent of the proprietor of a trademark is required for the export of goods distributed within the EEA to a third country.

The Metropolitan Court dismissed the request for a preliminary ruling. Its position was that "turning to the European Court of Justice is possible for judges in Member States when there is an issue as to the interpretation of community law that is relevant for the adjudication of a case at hand. If there is no doubt as to the application of community law, judges in Member States are not obliged to ask for an interpretation from the European Court" (1.P.630.032/2005).

The Metropolitan Court of Appeal also refused to make a preliminary ruling stating that "one of the questions requested to be interpreted by the plaintiff ... was whether the exhaustion of rights extends to the export of the goods from the country. In this respect the position of the

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<sup>8</sup> T. Little: EU politicians back CTM system, sending a stern warning to national offices. September 24, 2010 [www.worldtrademarkreview.com/daily/Detail.aspx?g](http://www.worldtrademarkreview.com/daily/Detail.aspx?g)

<sup>9</sup> E.g. IMPULSE case, Metropolitan Court, 1. P 28.319/2003. Védjegyvilág 2005/12, p. 38

court of second instance was that this was not the relevant issue in this lawsuit, but whether the exhaustion of rights occurred in the first place, as, if the goods are marketed lawfully within the EEA, resale (export) is also covered by the exhaustion of rights and the express permission of the proprietor of the trademark is not required therefor.

Although as the last forum the Metropolitan Court of Appeal does have an obligation to make a reference, but it must examine the applicability of the requirements laid down in the practice of the European Court of Justice, including for example in the CILFIT case (283/1981) ... In the given case ... under Article 234 of the EC Treaty interpretation of community law is not required in respect of the questions raised by the defendant” (8. Pf. 20.345/2007).

The defendant appealed to the Supreme Court which also ruled on the lack of necessity of reference to the European Court of Justice as follows: “The Metropolitan Court of Appeal was correct on the issue that under Article 234 of the EC Treaty no reference need be made for a preliminary ruling if, inter alia, the national court can determine that the European Court of Justice has already interpreted the provision of community law at issue (CILFIT case). The provision at issue in this case is Article 7 of the TM Directive, which regulates the exhaustion of rights conferred by trademark protection. Section 16(1) of the Trademark Act contains identical rules, whereby trademark protection shall not entitle the holder to prohibit the use of the trademark in relation to goods which have been put on the market in the European Economic Area by him or with his expressed consent.” (Pf. IV. 24.875/2007)

#### *Note*

The CILFIT case caused significant reverberation in the foreign literature and was an issue in Hungary as well: Kecskés, Várnay, Gombos and Osztovits have all discussed it at greater or lesser lengths.

I believe that the large number of commentaries shows that the CILFIT judgment is one of the most important judgments in terms of procedural law, since by abating the *acte clair* principle applied rigorously until then, it gave a larger degree of discretion to the courts of Member States in deciding whether to refer a case for preliminary ruling. The Danish Rasmussen<sup>10</sup> cleverly noted that the CILFIT judgment was based on a “give and take” strategy by the European Court of Justice. Hungarian courts applied this discretion as well: the Metropolitan Court implicitly, whereas the Metropolitan Court of Appeal and the Supreme Court directly, when they refused to refer the case to the European Court of Justice in respect of the exhaustion of rights.

#### **Proof of Infringement in the Case of Parallel Import**

In the PALMOLIVE CLASSICO infringement case<sup>11</sup> outlined above, the defendant’s substantive defence was that the plaintiff is the one who must prove the defendant’s supposed infringement, including the fact that the plaintiff must follow the distribution chain ending with the

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<sup>10</sup> In: *P. Craig – G. de Burca*: EU law. 4th edition, Oxford 2008, p. 475

<sup>11</sup> The series of judgments is discussed as a whole by *É. Szigeti*: Exhaustion of Trademark Rights. AIPPI Proceedings (Hungary) 2009, p. 71.

defendant, proving the point on the chain at which the distribution of the objected product became unlawful.

The Metropolitan Court did not accept this defence holding that “the plaintiff obviously cannot be expected to prove that a third party does not have its consent. It was the defendant that claimed that the goods entered the EEA lawfully, so the burden of proof is on the defendant to prove its claim, which it failed to do” (1. P. 630.032/2005).

On appeal, the Metropolitan Court of Appeal held that “in contrast with the defendant’s claim that the plaintiff must prove that it first marketed the goods on the Mexican market, the European Court of Justice has already resolved the issue of the burden of proof in earlier judgments (see joined cases of Davidoff and Levi Strauss C-414/99 and C-416/99). This court ruled that in each case it is the trader alleging consent that must prove such consent from the proprietor of the trademark (8. Pf. 20.346/2007).

It is notable that the Supreme Court also took a position on the burden of proof in its ruling dismissing the request for referral, namely:

“As to the disputed issue of the burden of proof of the facts in relation to the exhaustion of rights conferred by trademark protection, which arises in connection with the application of Article 7 of the Directive (and Section 16(1) of the Trademark Act), the European Court of Justice has provided a clear interpretation in the C-414/99 case. According to that judgment it is for the trader alleging consent to prove that it has consent from the trademark proprietor. This interpretation is in line with the provisions of Section 164(1) of the Act on Civil Procedures. The plaintiff cannot be required to prove that it did not place the disputed product on the market within the EEA, because the proprietor of a trademark cannot be required to prove a negative fact in an infringement case either. Therefore, merely because the defendant disputes the plaintiff’s allegation, whereby the confiscated soaps were first placed on the market in Mexico, it does not mean that the burden of proof is on the plaintiff that it did not place the products on the market in the EEA. This interpretation is not affected by the circumstance that in the so-called Davidoff case there was no question as to the place where the product was first marketed. The European Court of Justice’s interpretation, whereby it is the trader marketing the goods with the trademark in the EEA and alleging consent that must prove that it has such consent from the trademark proprietor, is regardless of the above. The European Court of Justice came to essentially the same conclusion based on a different set of facts in case C-405/03.

In respect of the burden of proof in relation to the exhaustion of rights conferred by trademark protection, the Metropolitan Court of Appeal was correct in dismissing the defendant’s request to refer the case to the European Court of Justice for a preliminary ruling” (Pf. IV. 24.875/2007).

#### *Note*

In its substantive defence the defendant would have had to prove that it has the plaintiff’s consent in respect of the distribution of the products in Hungary, which, as the Supreme Court also pointed out, is governed by Section 164(1) of the Act on Civil Procedures. Community law



is not different on the issue of the burden of proof. In fact the Metropolitan Court of Appeal pointed to two ECJ judgments “which decided the issue of the burden of proof”.

### **Conclusion**

I am hopeful that the reader will have recognised that this account was positive: both the Hungarian Patent Office and the courts generally follow the preliminary rulings of the European Court of Justice, including the principles expressed in the case by case decisions.

For the sake of giving a complete picture I am compelled to note that to my knowledge, to date there have been no references to the European Court of Justice in trademark cases for a preliminary ruling – in contrast with other civil law and public administrative cases.<sup>12</sup>

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<sup>12</sup> *P. Szabó: A Pp. előzetes döntéshozatali eljáráshoz kapcsolódó rendelkezéseinek felső-bírósági gyakorlata (High Court's Practice Related to the Provisions of the Act on Civil Procedure Regarding Preliminary Rulings.) Európai Jog, 2009/1, p. 3(11)*

## The LEGO trademark cancellation case in Hungary

### 1. Antecedents

The company LEGO started its business activity by manufacturing wooden toys in the 1930s. Since then, the company group has become the largest manufacturer of building toys and sixth largest manufacturer of toys in general. The basic LEGO bricks, whose appearance and design have virtually not changed since 1958, still qualify as the basic products of the LEGO group beside the continuous product development and expansion of product range (e.g. LEGO TECHNIC products).

The basic LEGO bricks (bricks with knobs 1, 2, 2×2, 2×3 and 2×4) are under national trademark protection with priority of 7 December 1990 in Hungary.<sup>1</sup> The trademarks are protected in relation to toys in Class 28. The trademarks are black and white rectangles with the LEGO word not written on their knobs – contrary to their form of use in the course of trade. The trademarks were registered as figurative marks but the graphic representation of the rectangles is three-dimensional.

The LEGO group submitted a petition and a request for preliminary injunction against the Hungarian producer of the COBI interlock-toy product family, which (jointly with its parent company; together hereinafter: COBI) responded by filing cancellation claims against the five national trademarks protecting the basic LEGO bricks. The litigation was initiated by LEGO primarily due to the fact that the COBI building toys can be built together with the LEGO building toys, they are compatible with each other and therefore – according to LEGO's standpoint – confusingly similar.

The cancellation claim was based on the following grounds:

1. lack of objective distinctive character [Section 1(1) of the Trademark Act<sup>2</sup>],
2. lack of subjective distinctive character [Section 2(2)a) of the Trademark Act],
3. the trademark consists exclusively of the shape that results from the nature of goods themselves [Section 2(2)b) first part of the Trademark Act],
4. the trademark consists exclusively of the shape that is necessary to obtain a technical result [Section 2(2)b) second part of the Trademark Act].

The economic weight of the case was of great significance: the actual stake of the proceedings was if any competitor would be entitled to freely manufacture and produce the basic elements of LEGO's unique, well-known and market-leading building toys or would this right remain exclusively for LEGO. Furthermore, the case raised numerous questions in relation to the interpretation of law and legal policy: ultimately, the basic question of the proceedings

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<sup>1</sup> Under registration Nos. 130712-130716

<sup>2</sup> Act XI of 1997 on the Protection of Trademarks and Geographical Indications

was where the optimal borderline between freedom of competition and the avoidance of misleading consumers as two fundamental interests, or between exclusive rights and competition shall be imposed. The procedure was in the centre of attention also due to the fact that there had been completed or ongoing cancellation procedures in several legal systems concerning similar or identical subject-matters against trademarks protecting the basic LEGO bricks, which produced different outcomes.

The purpose of the study is the brief presentation of the parties' standpoints and decisions of the Hungarian Patent Office and the courts, with a short and exemplificative outlook on similar procedures in other legal systems.

## **2. The parties' standpoints and the decisions**

### **2.1. Suitability for distinction (objective distinctive character)**

According to *COBI's standpoint* the photo picturing a black and white rectangle may not be subject to trademark protection. In its view, the rectangle may only be registered as a three-dimensional trademark but not as a figurative mark. COBI argued that the Hungarian consumer knows that there are more "lego-like" building toys on the market, and according to it, the distinctiveness is only ensured by the word element "LEGO" featured on each of the knobs of the LEGO building bricks, but regarding the shape itself the building bricks of LEGO and its competitors are identical.

Pursuant to *LEGO's argumentation*, a photo is clearly one of the forms of graphical representation. Moreover, it stated that the Trademark Act expressly enables the trademark protection of "flat or three-dimensional figures, including the shape of the goods or packaging" [Section 1(2)d) of the Trademark Act] and therefore the rectangle, as a sign protecting the shape of the product, is suitable for trademark protection. Furthermore, LEGO stated that the building bricks possess a unique and special outer design which the consumers per se recognize without the word "LEGO".

The reasoning of the *Hungarian Patent Office's decision* which cancelled the trademarks of LEGO did not expressly refer to the ground for refusal of Section 1(1) of the Trademark Act. However, the decision of the Office stated that the distinction between figurative and three-dimensional marks is of significance. In its view the figurative nature of the trademark makes it only possible to refer to the legal ground set forth in Section 2(2)a) of the Trademark Act, because the cancellation grounds of Section 2(2)b) only concern three-dimensional trademarks.

The *order of the Metropolitan Court*, which modified the HPO decision and rejected the cancellation claims, examined – above all – the distinction between objective and subjective distinctive character. According to the court, in relation to objective distinctive character it must be examined if a trademark – beyond its graphical representation – is suitable for distinguishing goods or services from goods or services of others, whilst with regard to Section 2(2)a) of the Trademark Act it must be evaluated as further legal requirement if the distinctive character of the sign actually has an effect in respect of the product factors and the language use relevant on the application date. Thus objective distinctive character should be examined independently of place and date, exclusively taking into account the characteristics of the trademark, and only

if this condition is fulfilled, it may be examined if it could actually prevail on the date of trademark application, under the then-existing circumstances (subjective distinctive character).

The *Metropolitan Court* accepted the arguments of LEGO and established that the shape of a product may be subject to trademark protection because it may be included among the signs suitable for trademark protection according to Section 1(2)b) of the Trademark Act.

Regarding objective distinctive character, the Metropolitan Court pointed out that the trademarks concern simple, abstract and regular geometric shapes which have unique features without resulting in any kind of designation or function on the basis of their mere inspection. Based on this and by looking at the shape of the trademark, it is reasonably assumable that it is not a natural formation but someone's creation for a certain purpose, and if so, it is objectively suitable for distinguishing goods or services from other goods or services.

In the second instance procedure started on the basis of an appeal filed by COBI against the order of the Metropolitan Court, the *Metropolitan Court of Appeal* accepted LEGO's standpoint and expressly stated that a product photo may be suitable for distinguishing goods or services and that it is undisputedly a form of graphical representation.

Moreover, the Metropolitan Court of Appeal principally pointed out – rejecting COBI's argumentation – that it is not significant with regard to any of the requirements of trademark protection (neither graphical representation, nor distinctive character) if the shape of a certain product was registered as a figurative mark and not as a three-dimensional trademark. According to the Metropolitan Court of Appeal, the denomination of the type of the sign (figurative or three-dimensional) is only one of the formal requirements of the trademark application [set forth in Section 2(1)b) of IM regulation No. 19/1997. (VII. 1.)], and its correct or incorrect indication does not give rise to the cancellation of the trademark as per the Trademark Act.

## **2.2. Distinctive capability (subjective distinctive capability)**

According to *COBI's standpoint*, the form presented by the trademark has been fully disclosed by H.H.F. Page's British patents concerning the compatible toys as well as by LEGO's own patent of 1958. According to COBI, after the expiry date of the patents, the form became part of the public domain, thus it can no longer be expropriated by trademark protection. COBI stated that the building bricks, which are identical with the trademarks, correspond to the figures seen in these patents and the device does not contain any elements that would mean any plus beyond functionality. Thus, in COBI's view, the trademark consists exclusively of signs that are commonly used to indicate the purpose and the characteristics of the building brick.

According to *LEGO's argumentation* the technical solution (ability to being built together) and the concrete, individual outside appearance (the concrete form of the building brick) have to be separated. The patents concerned exclusively the technical solution and during its protection term LEGO was entitled to act against anyone who produced construction toys that can be built together. LEGO argued that the ability of being built together as a technical solution can be fulfilled with several forms, out of which the shape protected by the trademark is only one, albeit the best known and most successful one. According to LEGO's argumentation this shape is a

special combination of an angular solid base and smooth-topped cylindrical studs of specific proportions, which – owing to the unique ratio of unit length to unit width to unit height – serves as a basis of association with LEGO. Thus, according to LEGO, the patents are irrelevant.

LEGO further emphasised that for both itself as well as the consumers, the trademark does not simply cover a building brick, but it represents a whole product line as well as the image and the goodwill of the producer. This has been achieved by consistent use for several decades, which has been enough in itself for the trademark to acquire a distinctive character. In this respect, LEGO in particular referred to the market survey carried out by GFK Hungária Market Research Institute, which established that 81% of the adult interviewees have already seen “Lego” building bricks, with the corresponding ratio being 94% in the case of children, furthermore, that 2/3 of the adults and 3/4 of the children asked were able to name LEGO on looking at the toy bricks. COBI disputed the results of the survey, according to its standpoint it is not capable to prove the distinctive character and the acquisition thereof.

The *Hungarian Patent Office* found the cancellation claim of COBI to be well-founded on the basis of Article 2(2)a) of the Trademark Act, thus on the basis of lack of subjective distinctive capability.

The Office established that the rectangular solid having smooth lateral surfaces and cylindrical connecting pieces (studs) marks the intended purpose of the product. According to the Office, the product under trademark protection had no other specific element capable of distinguishing the product from the similar goods of other producers. The Office accepted COBI’s arguments that the black-and-white photograph shown in the trademark registry was a simple illustration of the product, and also agreed that the external design of the device under trademark protection was fully disclosed by the British patents and the drawings contained in the specification clearly indicated the functional design of the product, including the smooth lateral surfaces and the studs.

The Office also stated that it was not substantiated that the trademark had acquired a distinctive character through use. In relation to the market survey conducted by GFK, it was pointed out by the Office that only 49.1 % of the interviewees, i.e. a minority of the consumers were able to recall the figurative mark, which percentage, according to the Office, was not sufficient to prove the acquisition of distinctive character.

It was pointed out by the Hungarian Patent Office that by their nature, the institutions for the legal protection of industrial property (i.e. patent protection, utility model protection, design protection, trademark protection, and the protection of geographical indications) usefully complement each other, yet none of them may be used to ensure in another way exclusive rights (in this case through trademark protection) to solutions which have already become part of the public domain (in this case through the expired patent), thus restoring the monopolistic position of the acquirer of rights (through trademark protection a monopolistic situation that is unlimited in time) and excluding competitors from the possibility of utilising their products based upon technical solutions which have already become a part of the public domain. The Office emphasized that such use of trademark law would be contrary to the social functions of this institution and would unduly restrict market competition.

The *Metropolitan Court* took an opposite standpoint in relation to the subjective distinctive capability. According to the Metropolitan Court, in relation to the issue of subjective distinctive capability, the circumstances prevailing on the day of application for trademark registration are to be examined, and in particular if the trademark has been used in trade to designate – in respect of toys – the kind, quality, quantity, intended purpose, value, geographical origin or the time of production of the goods or of rendering service, or other characteristics of the goods or services, or if it has become customary in the current language or in the practices of trade

According to the Metropolitan Court, the Office was wrong when it recognised a necessary relationship between the shape and the function of the form under trademark protection by establishing that the shape of the product marks the intended purpose of the same, in this case the feature that the individual building bricks interlock with one another to create a unified structure.

According to the court, this conclusion is wrong from both logical and factual aspects and it also does not fall within the scope of the ground for cancellation hereby concerned (subjective distinctive capability).

First, in relation to the delineation of the various grounds of refusal the Metropolitan Court pointed out that, due to an independent statutory rule, the necessity of the relationship between shape and function should be examined in respect of the grounds for cancellation listed under Article 2(2)b) of the Trademark Act and not in relation to subjective distinctive capability.

Second, according to the Metropolitan Court it is a question of evidence whether there is a necessary relationship between the shape and the function of the object in the average consumer's judgement. However, according to the court, there have not been any data suggesting the inevitability of such an association of ideas (use of language, customs, rules of law etc.). According to the court, the patents referred to and the drawings shown therein present, at the maximum, the internal relationships between the form and the function of the trademark, but despite their unlimited availability, their mere existence does not create the foundation for a broad consensus based on which the challenged form could be used for the general indication and marking of building bricks interlocking with each other. In other words, it is not proven that the form shown in the trademark does, in general, mean interlocking building bricks as such. The customers' judgement that the form shown in the trademark is a building brick is only an interpretation of the trademark and is strictly confined to its definition, without serving as a basis for any association of ideas that may become necessary for indicating some characteristics of the competitors' goods.

According to the Metropolitan Court, another question to be considered in respect of Article 2(2)a) of the Trademark Act is whether a trademark having a potential distinctive characteristic within the meaning of Article 1 of the Trademark Act on the day of application for trademark registration was, in fact and actually, capable of distinguishing by its essential characteristics the owner's goods from similar competitive products. In this regard, there are two factors to be considered according to the court.

On the one hand, the challenged trademark is of a rather simple shape, wherefore even a slight modification of any of its essential characteristics, such as the form of the studs, the

design of the rectangular solid base, or their relative proportions, may considerably change the overall impression created by the shape.

Furthermore, according to the Metropolitan Court, it is of particular importance that the trademark is widely known by consumers, it can be considered as well known. Contrary to the Office, the court accepted as a proof of this fact the results of the market survey conducted by GFK Hungária Market Research Institute. According to the court, the market survey proves that the average consumer associates the trademark with LEGO. In this respect, the results of the survey rebut COBI'S allegation that the consumers would associate the trademark with the owner because of the LEGO work shown on the knobs, since the picture shown to the interviewees did not indicate this word, just in case of the shape shown on the trademark.

The *Metropolitan Court of Appeal* upheld the first instance resolution with one difference: the Court of Appeal concluded that the results of the market survey shall be evaluated in relation to the distinctive character (Article 2(2)a) of the Trademark Act) and not in relation to acquired distinctiveness (Article 2(3) of the Trademark Act). According to the Metropolitan Court of Appeal, as it had been established on the basis of other facts and arguments, the challenged sign is not excluded from trademark protection with regard to the fact that it has subjective distinctive character within the meaning of Article 2(2)a) of the Trademark Act, thus it was unnecessary to examine the acquisition of a distinctive character through use.

### **2.3 Nature of the goods**

This question was not analyzed by the *Hungarian Patent Office*, since according to the Patent Office's standpoint this ground for refusal is not applicable in respect of figurative trademarks.

In a previous case the Metropolitan Court of Appeal declared that a shape resulting from the nature of the goods themselves means a shape considered natural by consumers having regard to the nature of the goods. In respect of three-dimensional signs, one should therefore examine the existence of differences by which the sign considerably departs from the standard or customary solutions, thus lending the sign the function of indication of origin.

Concerning the delineation of grounds of refusal the *Metropolitan Court* found that in respect of Article 2(2)b) of the Trademark Act, contrary to Article 2(2)a) of the Trademark Act, the point to be first examined is not the selection of building toys available on the market, but the question of whether the respective shape naturally results from the nature of the construction toy itself. It is a further aspect of delineation that the nature of construction toys may not be limited, as COBI did, to building toys which are based upon the functional mechanism of the construction toy covered by the challenged trademark, since this would mean the examination of the specific technical result, which falls within the scope of a separate ground for refusal.

Due to the findings of the Metropolitan Court, the most natural versions of building toys are simple geometric shapes such as wooden cubes placed next to one another. However, cubes, just like other abstract forms, may be in a fixed connection with one another; such connections can be achieved in several forms, including, for instance, the family of 'Playmobil'

toys, which are based upon a unique way of connection between the individual elements, or the currently popular three-dimensional puzzles, and also the toy associated with the shape under trademark protection. According to the opinion of the Metropolitan Court, none of these construction toys are to be considered as natural, with all of them resulting from creative work. As a consequence, the shape covered by the trademark protection may obviously not be regarded as a natural shape resulting from the nature of construction toy as such.

Furthermore, the Metropolitan Court accepted LEGO's argument that the technical function (possibility of interlocking) and the individual shape (the subject-matter of the trademark protection) shall be separated. In this regard the Metropolitan Court highlighted that only the possibility to interlock the individual building elements, but not the actual mechanism of interlocking, follows from the nature of the construction toy system. Thus, it can be established that the shape of the trademark does not result from the nature of the goods themselves.

According to the *Metropolitan Court of Appeal*, during the analysis of the shape resulting from the nature of goods the Metropolitan Court correctly examined whether the respective shape naturally resulted from the nature of the construction toy itself and correctly came to the conclusion that all construction bricks that may be interlocked with one another in a fixed position result from creative work and, as a consequence, a shape of this kind may obviously not be regarded as a natural shape resulting from the nature of construction toy systems as such. Furthermore, only the possibility to interlock the individual building elements, but not the actual mechanism of interlocking, follows from the nature of the construction toys.

#### **2.4 The technical result to be obtained**

The parties' arguments and the court decisions were the most detailed and extensive in respect of this question.

According to *COBI*, the trademark consists of a shape which results from the nature of the goods themselves and which is necessary to obtain a specific technical result. In the present case, this technical result is the interlocking of bricks, which is facilitated by the cylindrical protrusions as positive connecting pieces located on an angular solid base at a specific distance from one another, furthermore, by the under-brick connecting pieces of a negative tubular shape. Building toys of this type were protected by the patents referred to before, yet the protection term of these patents has already expired, consequently, the interlocking system and the shape necessary therefor have become part of the public domain. Due to *COBI*'s argument, the trademark concerned is devoid of any element that is not necessary to obtain a specific technical result, and by that, the competitors are unreasonably limited in construction and marketing construction bricks of a similar system.

Special attention was paid by *COBI* to the judgment passed by the European Court of Justice in a preliminary ruling procedure in the *Philips v. Remington* case, where the applicability of the ground for refusal similar to that in the second phrase in Article 2(2)b) of the Trademark Act, was examined. The judgment established that the ground for refusal was to be understood in such a way that any sign which consists exclusively of the shape of a product was not eligible for trademark registration if it was proven that the essential functional characteristics



of the shape were only attributable to a specific technical result to be obtained. It was also held irrelevant for this absolute ground for refusal whether there existed other shapes, which could achieve the same technical result, as the competitors' choice was not to be limited in this respect, either.

In an abstract manner COBI argued that the provision in Article 2(2)b) of the Trademark Act is aimed at preventing an unlimited extension, under the "disguise" of trademark protection, of exclusive rights limited by time, with particular regard to the rights granted under patent and design protection. Otherwise, the interpretation of the Trademark Act, with particular regard to the second phrase in Article 2(2)b) thereof, would merge the definitions of these three forms of legal protection for industrial property, i.e. patent, design, and trademark protection.

According to COBI's interpretation, Article 2(2)b) of the Trademarks Act may not even grammatically be construed in such a way as to consider whether the same technical result could be obtained by other means as well when judging aspects such as a shape "resulting from the nature of the goods themselves" and "being necessary to obtain a specific technical result". An explanation of this kind would be qualifying to such an extent that would be contrary to the above-mentioned public interest as well as to the legislator's will behind the legal provision concerned.

According to COBI, in the present case, this technical result to be obtained with the shape covered by the trademark is the interlocking of bricks, which is facilitated by the cylindrical protrusions as positive connecting pieces located at the top of the cube, furthermore by the under-brick connecting pieces as negative connecting pieces, in such a way that the connection is strong enough to create a moveable and retentive construction, but it is not too strong, so that even little child-hands can dislocate them into pieces. In their view the essential, functional features of the shape covered by the trademark result exclusively from this effect. As an evidence of this, COBI referred to the fact that the claims of the mentioned British patents fully cover the shape and this shape appears on the drawings of these patents as well.

LEGO also contested the well foundedness of the cancellation title in Article 2(2)b) of the Trademark Act. In LEGO's opinion, this ground for refusal only excludes trademark protection if the sign concerned is purely functional, i.e. it does not have any arbitrary and individual character. LEGO did not contest that the possibility of interlocking is one of the functions of the shape granted trademark protection, pleading at the same time that this is not the only function as the building brick designates not only the brick itself but the building toy and the entire product category as well, representing by that the image and the goodwill of the producer company. LEGO further argued that when creating this building toy, the aesthetic design of the product was just as important as the feature of interlocking, furthermore, a shape less optimal from a technical point of view has been chosen just on the basis of aesthetic considerations.

LEGO tried to prove by various expert opinions obtained by him that the technical solution concerned can be achieved by using several other shapes as well, the production costs of which do not exceed those of the brick that was granted trademark protection.

In LEGO's understanding, the statement in the *Philips v. Remington* judgement concerning alternative solutions does not exclude the possibility that the existence of alternative forms may, in fact, prove the lack of exclusive functionality.

LEGO further strongly contested the allegation that in the present case, trademark protection is to substitute for patents that already expired, as the trademark may only prevent competitors from using their construction bricks functioning in accordance with the patents in the shape granted trademark protection, yet it may not prevent the interlocking of bricks by using shapes different from the registered trademark.

According to the standpoint of the *Hungarian Patent Office*, the cancellation claim is unfounded in respect of Article 2(2)b) of the Trademark Act, since the contested trademark is not a three-dimensional but a figurative mark; and this ground for refusal may only be applied and interpreted in relation to three-dimensional trademarks.

Considering that the Metropolitan Court of Appeal declared in an order passed in a trademark cancellation action (which set aside the Metropolitan Court's first instance order) that Article 2(2)b) of the Trademark Act can be evaluated in respect of both figurative and three-dimensional trademarks, the Metropolitan Court dealt with this question on its merits.

As the first point the *Metropolitan Court* highlighted that the mere fact that a shape has already been specified or presented in a prior patent does not prevent trademark protection, as a product may at the same time be granted several types of industrial property protection provided that the respective individual protection criteria are fulfilled (principle of parallel protection). Besides, in accordance with LEGO's arguments, the court declared that there is a significant difference between the scopes of patent protection and trademark protection, with the former one guaranteeing the exclusive use of a technical solution, while the latter one guarantees the exclusive use of a sign that is capable of being graphically represented.

The court emphasized that not even the assessment of the ground for refusal hereby concerned is expressly aimed at comparing the patent with the trademark, since the technical result to be obtained is not equivalent to the patent. The patent explores a technical solution by which a specific technical result can be obtained. However, this does not mean that the same result can only be obtained by that solution. As a consequence, even if the specific shape is represented in a patent, one may not reasonably conclude that it is necessary to obtain a specific technical result.

According to the Metropolitan Court, in consideration of the application of the present ground for refusal, it is not the scope of the patent that should be examined, but the relationship between the technical result to be obtained and the technical solution disclosed in the patent. Since it is the claim where all characteristics are summarised that are to be present in the technical solution at the minimum so that a specific technical result can be obtained, when judging the question of "necessity", it is the claim that should be examined, i.e. whether the claims introduce all the essential formal characteristics of the shape shown in the trademark. If the answer is positive, the shape under trademark protection and the technical solution disclosed in the patent are the same, i.e. the shape concerned is necessary to obtain a specific technical result.

After the assessment and detailed comparison of the aimed technical function and the trademark shape, the Metropolitan Court came to the conclusion that the trademark has several essential formal characteristics which are casual and replaceable, i.e. not necessary to obtain a specific technical result. Such characteristics are, in particular, the following:

1. it is not necessary for the rectangular solid base to have a smooth surface as it can be articulated, for instance, by means of bores, remarkably changing the shape of the object;
2. it is not necessary for the knobs to be of a cylindrical shape as they can be also rectangular with a rounded or sharp edge, etc.;
3. finally, the proportions of the rectangular solid base relative to the protrusion can be changed significantly freely.

Thus, according to the Metropolitan Court, the individual essential formal characteristics under trademark protection should not be considered functional characteristics at the same time; the specific technical result can be obtained not only by means of the protected shape but also by other shapes with several variable characteristics, i.e. the shape under trademark protection is not necessary to obtain the specific technical result. In consequence, not even the second phrase in Article 2(2)b) of the Trademark Act precludes the protection of the trademark.

The Metropolitan Court accepted LEGO's arguments and found that the findings in the Philips v. Remington judgment concerning alternative shapes were incorrectly interpreted by COBI. The judgment does not mean to pronounce that no reference to alternative shapes may be validly made; it only means that if it is proven that a trademark consists exclusively of a shape which is necessary to obtain a specific technical result, then no reference to the existence of alternative shapes may be considered valid – this interpretation follows from the way in which the relevant question is framed. In other words, a reference to alternative shapes only becomes invalid if it has been proven that the essential functional characteristics of the shape of a product are attributable solely to the technical result. It was noted by the Court that the above finding is merely an analytical conclusion, because if it has been proven that a certain shape is absolutely necessary, i.e. that a specific technical result cannot be obtained by any other shape, this means that there are no alternative shapes, and if someone still presents a shape like that, it can be proven that the latter shape cannot, or does not, obtain the same result.

Finally, due to the court's opinion, only such an interpretation is in accordance with the teleological interpretation of the legal provision concerned. The rationale of functionality as a ground for refusal is to prevent the protection conferred by the trademark right from forming an obstacle preventing competitors from freely offering for sale products incorporating such technical solutions or functional characteristics in competition with the proprietor of the trademark, but the public interest set out herein is obviously not harmed if the shape under trademark protection is not necessary to obtain a specific technical result, i.e. if it can be obtained by several other shapes as well.

Summarizing, some formal characteristics of the shape under trademark protection cannot be at the same time considered functional characteristics. Therefore, these characteristics can be changed without affecting the technical result to be obtained, for

instance, for aesthetical reasons, as explained by the expert opinions filed by LEGO. This way, the shape under trademark protection can be applied not only as a construction brick but also as an indication of goods, and even as a pure work of art and in other fields falling rather far away from its original function. For this reason, the Metropolitan Court agreed with LEGO in that the three-dimensional form shown in the trademark consists not exclusively of a shape to be identified with a building brick, and as such, being merely necessary to obtain a specific technical result, but as a result of persistent use for several decades, the trademark has become capable of representing LEGO's image and goodwill as well as a specific consistent quality, i.e. Lego and not simply a building brick, for generations grown up using the product.

The *Metropolitan Court of Appeal* upheld the Metropolitan Court's order with a partly different argumentations.

The Metropolitan Court of Appeal set forth that the challenged sign is to be regarded as functional inasmuch as it consists of a solid base and a connecting element. In the present case, the body is a rectangular shape and the connecting element is a knob. If based upon the relevant reason for exclusion only the three-dimensional shape (rectangular body) and the stud were to be examined, none of the building bricks that may be interlocked with one another would be eligible for trademark registration. According to the court, such an interpretation of the law would unreasonably prevent the producers from acquiring an exclusive right to the shape of an interlocking toy system, which would be inconsistent with the principles of the trademark law. Therefore, due to the Metropolitan Court of Appeal's standpoint, it can only be judged whether the other essential formal elements of the challenged sign are exclusively necessary to obtain a specific technical result by examining them.

According to the Court of Appeal, in the case of the challenged sign, the smooth surface of the rectangular base, the cylindrical shape of the studs, and the proportions of the rectangular base relative to the protrusion shall be considered essential formal characteristics as pointed out correctly by the court of first instance. In the court's view, it can be established that these unique and arbitrarily chosen formal characteristics are not simply functional but they are important for the aesthetics and design of the shape. It is not essential for the individual elements to have the specific shape represented by the trademark for interlocking. As it has been established in the present case that the essential formal characteristics of the challenged sign are not exclusively attributable to the intended technical result, the next point to be judged in accordance with the interpretation given in the *Philips vs. Remington* judgment is whether the intended technical result can be obtained in other ways, i.e. by means of alternative shapes as well. In view of the data filed during the present procedure, it was beyond doubt that there are numerous alternative designs equivalent from both technical and economic aspects with the building brick covered by the trademark.

The second instance court highlighted also that it is incorrectly argued in COBI's appeal that LEGO could monopolise the market of construction bricks furnished with knobs by the exclusivity granted by trademark protection, as the trademark protection hereby concerned only grants exclusivity for the specific shape of goods covered by the trademark. The Court of Appeal pointed out that due to the fact that construction bricks furnished with knobs can have numerous other alternative designs, the protection of the challenged trademark does not prevent the competitors from producing and distributing products with similar functions.

### 3. International outlook

The Hungarian decisions upheld the trademarks protecting the basic LEGO construction bricks. We highlight the following cases from foreign procedures involving similar subject-matters.

In *Switzerland*, the company Mega Bloks requested the cancellation of LEGO's three-dimensional trademarks protecting the basic bricks. The Commercial Court of Zurich ruled that the form of the LEGO bricks was merely functional and accepted Mega Bloks's cancellation claim. In July 2003, the Federal Supreme Court lifted this decision and sent back the case to the first instance court. The Supreme Court established that the shape of a product is not "technically necessary" and thus protectable as a trademark if there are reasonably feasible alternatives. An alternative is not reasonably feasible if it is less practical, less solid or more expensive to produce. The Federal Supreme Court instructed the first instance court to examine whether the LEGO brick had reasonable alternatives. In the repeated procedure, the Commercial Court limited the examination of reasonable alternatives to bricks that were compatible with the LEGO bricks. On further appeal, the Federal Supreme Court established that the first instance court incorrectly limited its analysis and set aside the first instance decision. Thus, according to the Federal Supreme Court of Switzerland, the alternative shapes shall be examined, similarly to the standpoint taken by the Hungarian courts.<sup>3</sup>

The Mega Bloks group successfully acted against the LEGO bricks in other jurisdictions. For instance, in *Canada* the judgement of November 17, 2005 of the Supreme Court established that the LEGO brick, in particular its upper knobs, were primarily functional and thus cannot be granted trademark protection. According to the Canadian court, the functionality of the bricks was protected by patents, and trademark protection cannot be used to "evergreen" such monopoly.<sup>4</sup>

The invalidity case against LEGO's *Community Trademark* is similar to the Canadian situation. With decision of July 10, 2006, the OHIM Grand Board of Appeal<sup>5</sup> upheld the decision of the cancellation division, which cancelled LEGO's three-dimensional trademark protecting the red LEGO 2x4 basic brick, since in its standpoint the trademark was functional, i.e. exclusively necessary to achieve a technical result.<sup>6</sup> The appeal submitted against the decision of the Grand Board of Appeal was rejected by the Court of First instance's judgment of November 12, 2008.<sup>7</sup> In the invalidity case the OHIM and the Court of First Instance, contrarily to standpoint of the Hungarian courts, interpreted the *Philips v Remington* judgement in a manner that it excludes the examination of alternative shapes. Furthermore, they also set forth that the aim of functionality is to prevent trademark protection from extending beyond the function of signs that

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<sup>3</sup> Véronique Musson: *Building a strategy for shape mark protection*, World Trademark Review, January/February 2007, p. 23

<sup>4</sup> Véronique Musson: *Building a strategy for shape mark protection*, World Trademark Review, January/February 2007, p 23

<sup>5</sup> Case No.: R 856/2004-G

<sup>6</sup> According to Article 7(1)(e)ii) of Regulation 40/94/EC (CTMR): „The following shall not be registered: ... (e) signs which consist exclusively of: ... the shape of goods which is necessary to obtain a technical result.” This point of the CTMR corresponds to Article 2(2)(b) of the Trademark Act

<sup>7</sup> Case No.: T-270/06

enable competitors to freely promote their goods containing such features. On the basis of the appeal, the case is currently pending before the European Court of Justice.

#### 4. Summary

The extensive Hungarian trademark cancellation action, which lasted seven years, ended with LEGO's success. During the process, the courts gave general guidance in relation to several issues, in particular the delineation of certain grounds of cancellation, the differences between trademark and patent protection and the lack of significance of the device – three dimensional nature of signs in cancellation actions.

In relation to the main issues of the concrete case it is appropriate to cite the resolutions of the Supreme Court which upheld the final and legally binding resolutions of the Metropolitan Court of Appeal.

The Supreme Court pointed out that the challenged trademark does not display exclusively those kinds of features that show relevance only to the nature of the product, to achieving a technical result or to the value of the product. In the photograph depicting the product, the cylindrical knobs ensuring the possibility to interlock the brick with other pieces is definitely eye-catching, but besides, the construction brick has features which were detailed in the final and legally binding resolution, that have aesthetic functions serving distinctiveness and being independent from the technical function.

It is a fact that in some other jurisdictions (e.g. Canada, the European Union) the decisions were contrary to the Hungarian standpoint. Thus, it cannot be stated that the decision on this matter would be easy. However, we consider the standpoint taken by the Hungarian courts to be correct. Furthermore, we agree with the standpoint of the Supreme Court in relation to the basic issue of the case, i.e. the finding of the optimum balance between trademark protection and free competition. The Supreme Court established that the trademark does not provide legal protection (without time limit) to a technical solution the patent protection of which has expired and that has become part of the public domain, because everyone has the possibility to apply the technical solution of interlocking that was first applied in case of the Lego bricks if the person applies a different design.

This standpoint is supported also by the analysis of the Metropolitan Court, according to which the court examined the elements of the patent and of the trademark in detail and established that certain essential elements of the trademarks are not exclusively necessary to achieve a technical function. Furthermore, this standpoint is supported by the economic analysis of trademark law, according to which functionality can be given a precise economic meaning as follows. A non-functional feature, which can be granted trademark protection, is a feature that has perfect (or almost perfect) substitutes. Namely, in this case, granting an exclusive right to such a feature does not lead to deadweight loss.<sup>8</sup> Thus, economic analysis also supports the standpoint that the examination of alternative shapes is justified when examining functionality as an absolute ground of refusal. According to the standpoint of the Hungarian courts, this is not

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<sup>8</sup> William M. Landes – Richard A. Posner: *The Economic Structure of Intellectual Property Law*, The Belknap Press of Harvard University Press, 2003., p. 198

excluded by the Philips v Remington preliminary ruling, either. In case we would accept such an interpretation that the Philips v Remington judgement excludes the examination of the alternative shapes, then, according to our view, it would be legitimate to ask on the basis of the economic analysis and the Hungarian LEGO cancellation case whether this judgement of the ECJ is correct.

## Book review

### **L. Tattay: Hungary - A Monograph on Intellectual Property in the International Encyclopedia of Laws**

**Kluwer Law International BV, the Netherlands, 2010, pp. 350**

Intellectual property consists of 7 Volumes now as an integral part of the International Encyclopedia of Laws series (General Editor: Prof. R. Blanpain, Editor: Prof. H. Vanhees), the first volume was published in 1997.

After monographs (i.e. Supplements) from Central Europe, e.g. Austria (2006), Romania (2002), (Slovak Republic (2001), now a monograph on Hungary is published, too.

If this monograph would not have been issued in the frames of the Encyclopedia Supplement, considering its volume it could be an independent book as well.

As other authors of the Encyclopedia, Professor Tattay starts with a "General Introduction" (paragraphs of which are: Geography, Cultural Composition, Political System, Population Statistics, Historical Background). Compared with Supplements on neighbour countries it can be stated that the Hungarian monograph is richer than those of the mentioned countries. Only the Supplement Poland can be compared in this respect with that of Tattay. I believe that in respect of a small country, which name is better known from Puskás (football) or music (Bartók), this is a special merit of the author. The section Historical Background (paragraphs 8 to 12) is especially well drafted, objective and rich in information.

It is followed by the selected Bibliography that contains also books and papers published in English, French and German, including those written by authors not being Hungarian. Though it is regretful that the author does not refer to any article published in English in this yearbook (AIPPI Proceedings, Hungary) issued since 1971 until now. That means that a choice of about 150 articles published on Hungarian intellectual property in English was omitted.

The structure of the work is as follows:

Copyright and Neighbouring Rights (Chapter 1), Patents (Chapter 2), Utility Models (Chapter 3), Trademarks (Chapter 4), Trade Names (Chapter 5), Industrial Designs (Chapter 6), Plant Variety Protection (Chapter 7), Chip Protection (Chapter 8), Trade Secrets: Confidential Information (Chapter 9), Protection on Geographical Indications and Appellations of Origin (Chapter 10). The most comprehensive chapter is the one dealing with copyright (Chapter 1) which represents more than a third of the Supplement.

It is easy to realise from this work that as a result of the Agreement of Association with the European Union (1991) all acts on intellectual property were revised and amended, resp.: the Patent Act in 1995, the Trademark Act in 1997, the Copyright Act in 1999 etc. Further, important amendments were made to the frames of implementation of the IP Enforcement Directive of the European Union by the Act of 2005. The result of all this amendments is duly reported in the Supplement.



More interesting is that also two new Acts that were voted in the frames of the voluntary harmonisation with the law of the European Union, namely that on Chips (1991) and that on Utility Models (1992), were reported too.

Tattay's whole work consists of 447 paragraphs. The Index contains the paragraphs by numbers, allows an easy orientation for the reader who is interested only in respect of a special question.

The Hungarian Supplement of the Encyclopedia is a meticulous and systematic report on statutory law. All statements are corroborated by references from the respective sections of the acts or from works of leading authors.

This voluminous work of Tattay merits admiration, moreover congratulation to the Editors of the Encyclopedia for initiating and realising publication of the said Supplement.

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## Book review

T. Nótári: *A magyar szerzői jog fejlődése (The Development of Hungarian Copyright Law)*. Szeged, 2010, p. 330

T. Nótári, associate professor at Károli Gáspár University of the Hungarian Reformed Church, took on an appealing task when he set the analytical introduction of the development of Hungarian copyright law as an objective. In a country that the educated foreign audience associates with the names of *Béla Bartók* or *Sándor Márai*, his choice of topic is particularly approvable. It is also to be mentioned that the works of these authors are subject to the Copyright Acts of 1884 and of 1921 too.

The book can be divided into two main parts: the first part approaches the subject from the aspect of jurisprudence while the second part gives an account of the results of legislation.

In the first part, the bills of legislation and reform proposals of *Szemere* and *Balázs* are of greater significance.

Those who have only heard of Szemere Street in Budapest so far may now learn about the person whose name it bears that this attorney, who was born two hundred years ago, drafted the bill prepared in 1844 with a great breadth of view, however, the bill was approved by the king only 40 years later (after the Austro-Hungarian Compromise).

Professor Balázs did not have even that much luck: his convincing reform proposals, which were prepared in 1938, could not be realised at all because of the Second World War and the political changes that followed.

In a work of legal history it is not surprising but it is still commendable and notable that in the footnotes it provides accurate biographical details of not only Szemere and Balázs but of *Toldy* as well, who played an important role in the history of Hungarian copyright law, and even though he was neither a lawyer nor a native Hungarian speaker, he can be respected as the father of Hungarian copyright law. (A street in Budapest commemorates his name too.) The reader may just as well learn about the lives of those attorneys, publicists and businessmen who were the fighters of the improvement of copyright law in the time before the First World War.

The development of positive copyright law is presented in the second part of the book. This part is structured as follows: general provisions; provisions on individual genres; rights related to copyright; the consequences of copyright infringement. In this work, the analytical approach of the Acts of 1884 and 1921 is predominating. This is understandable as the objective is to explore the past and to elaborate what the acts that followed one another used from the ones preceding them.

I can expressly approve that the provisions of the act currently in force are only referred to in the footnotes, since the aim was to explore the past of Hungarian copyright law and as *Széchenyi* said: those alive are governed by the dead through laws.

This is exactly why I think that references to the successful *Benárd-Timár* commentary published in the seventies and to the *Világhy-Eörsi* textbook titled Civil Law published in 1962 are missing from the literature used. The latter textbook discusses copyright law in an extent which is probably unique in Europe and it was a compulsory part of the curriculum through decades. As the part of the textbook that deals with copyright law was written on the basis of the Act of 1921, it does not even have a socialist overtone.

Apart from the above-mentioned two objections, which might be explained with generational and emotional reasons, it is a fact that the book gives a valuable overview of the outstanding legal culture of and the results achieved by the earlier generations of lawyers, at which we can look back proudly even today.

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## Book Review

### L. Darázs: A KARTELLEK SEMMISSÉGE (The Nullity of Cartels), Budapest, 2009, p. 416

The introduction of the book says that today there are only a few people who already know that not only the Hungarian Competition Authority has power to take measures against cartels in Hungary. A competition control procedure because of the violation of the interests of the public can only enforce such need of the state that requires that the general processes of the economic competition be undisturbed and thus the common good be ensured. Cartels, however, are not only in conflict with the interests of the public in most cases but may also directly hurt the individual financial interests of other persons (competitors, consumers, contracted parties, businesses or private individuals). It is therefore desirable that the private parties of economic traffic may take action against cartels and raise private-law claims against the businesses involved in cartels. This is what we call 'private enforcement' of rights against the restrictions of competition.

Accordingly, taking action against cartels, as null and void agreements, and thus the private enforcement of rights against the companies involved in cartels is possible for the private parties of economic traffic. What is more, claims raised on the grounds of invalidity can be enforced in a quite wide scope as the nullity involves not only cartels between competitors but includes the invalidity of restrictions of competition in commercial (distributorship) relationships. This means that the issue of the nullity of cartels extends to the invalidity of purchasing (supply) contracts, trade agency (intermediary) contracts, exclusive relationships, specialised trading and authorised dealership agreements, and competition restricting agreements arising within the framework of franchise systems.

It is not by accident that an anthology of studies<sup>1</sup> in the same field was published last year and even earlier, and outstanding German legal scholars (Kessler<sup>2</sup>, Möschel<sup>3</sup>) had been dealing with the issue of private enforcement of rights on the basis of competition law in their lectures held in Budapest. This clearly indicates the timeliness of the topic chosen by Darázs.

Compared to these earlier lectures and studies, the monograph reviewed here is not only different in terms of its extent but it differs in its methodology: on the one hand, it discusses the relevant provisions Community law and the provisions of Hungarian competition law by drawing a parallel between and comparing the two, and on the other hand, it also draws a parallel between the applicable provisions of Hungarian private law (not only the Civil Code but the draft of the new Civil Code as well) and those of Hungarian competition law (cartel law).

It is a great merit of the book that it recites-publishes the relevant provisions of both Community law and Hungarian law, saving the trouble for the reader that he would have to go into by looking up the referred legal provisions. This naturally facilitates the readability of the work.

After this short introduction, let the outline of the imposingly structured table of contents (namely, those ten parts the work is built upon) speak for itself. Specifically: Fundamental

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<sup>1</sup> Versenyjogi jogsértések eseteén érvényesíthető magánjogi igények (Private claims that may be enforced in case of competition law violations) (Editor: Dr. Györgyné Boytha), Budapest, 2008

<sup>2</sup> J. Kessler: *Individualrechtliche Aspekte des deutschen und europäischen Kartellrechts aus Sicht der Konsumenten*

<sup>3</sup> W. Möschel: Soll der private Rechtsschutz im Kartellrecht verstärkt werden?

correlations between the private enforcement of rights and cartel law (I.); The general approach of nullity from the aspect of legal policy and content in private law, from the point of view of the prohibition of cartels, and the issues related to contracts in conflict with legal regulations (II.); Competition-law system of criteria for the establishment of the nullity of cartels on the basis of the competition law of the EU and of Hungarian competition law, as viewed from the aspect of private law (III); Changes in the time of occurrence of nullity and its handling in private law (IV.); Issues related to the nullity of individual forms of cartels (V.); Issues related to partial invalidity in cartel law (VI.); The legal consequences of the nullity of cartels (VII.); Certain issues of the enforcement procedure against null and void cartels (VIII.); The connection between the procedures of the Hungarian Competition Authority and of the courts in relation to nullity of cartels (IX.); International private law of the nullity of cartels (X.).

Probably even the headings included in the table of contents suggest that the author explored all aspects of the subject matter when he elaborated the issues of the criteria for the private enforcement of rights, which “has grown to become a popular current subject of EU cartel law” by today. In the course of his prudent analytical work, he has explored some issues that nobody has paid attention to before, neither in the international literature nor in legal practice. Such an issue is the relevance of the time of occurrence of nullity, for the handling of which he also makes a proposal. Although it is aimed in a different direction, he made another original observation whereby he concludes after a convincing analysis that cartels created by harmonised activities are to be considered differently from those created by an agreement.

Now, let us return to the objective of the work, the private enforcement of rights, which is the subject matter of part I of the book and which is “served” by the other nine parts of the book that constitute the system of criteria of private enforcement. As in several other matters of economic law, the process which started at the end of the 1990’s in the competition law of the EU and which – as I see it - has not yet reached its end, was inspired by American experiences (“Radical change of approach” – this is the title of Section I.2.2.). As the author rightly states, the fundamental change was initiated by the Council Regulation (EC) No 1/2003 on the implementation of the rules on competition of the Community. This Community regulation set two conceptual changes that gave the private enforcement of rights a new dimension. Namely, this new system of rules introduced a quite decentralised application of law, as a result of which the centre of gravity of the application of law was shifted to the competition authorities and courts of the Member States. This also meant that the courts of the Member States should be more open to accept private actions related to competition law violations in addition to the lawsuits connected to the revision of public administration decisions made in relation to the enforcement of rights under public law.

The European Court of Justice, by its precedent creating judgement made in the *Courage* case (C-453/99), as well as by its judgement issued in the same spirit in the *Manfredi* case (C-295-298/04), stated that in the event of the violation of the EU rules on the prohibition of cartels, in addition to the third parties who incurred damages because of a cartel, the companies involved in the cartels may raise claims for damages even against one another. As Darázs says very appropriately, these judgements “are to be considered revolutionary”.

After this, it ensues that consumers, businesses, retail- and wholesalers, etc. who suffered damage as a result of null cartel agreements may raise claims and file action for damages. At present, this is only known by few people, but in my opinion the enforcement of claims is possible in principle within the 5-year period of prescription. The book of Darázs is a useful instrument for the preparation for such legal actions.

The work reviewed here is also constructed well didactically; when it is necessary, the author briefly repeats what he has written in more detail earlier, or he refers to what has been said earlier (or would be mentioned later) – it is clearly apparent that Darázs is not only a practicing attorney but also an associate professor at the Eötvös University of Budapest.

At the end of the book, a summary in German and the table of contents in German are included.

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## Book review

### **Gy. Pintz: Védjeggyel a csúcsra! (The Mark of Success), Budapest, 2010, p. 246**

The introduction of the book says that “according to some people, God’s first words of creation were already trademarks. And God said: Fiat lux! – Let there be light! (Gen. 1:3). Others think that an Italian car company and a Swedish refrigerator company nicked the creating verb ...”. This humorous tone is noticeable throughout the whole book.

Obviously, the primary objective of the book is not making one laugh but humour is a means to catch and maintain our attention. The sometimes serious but other times humorous illustrations and caricatures, which appear in a surprising abundance, serve the same purpose. In the introduction on the back sleeve of the book, the author himself talks about a “legal picture-book for educational purposes” which enables the reader “to get familiar with the protection of trademarks by dipping into a pool of light stories”.

Let me start with the more serious part of the book, which is not that easy to find just by looking at the table of contents, one needs to browse through the pages of the book to find it; but it is worth the effort if the reader is strong enough not to make a stop at one or two especially interesting parts. The professional parts, which are a bit hidden: in a nutshell about trademarks (pp. 18-23); classification of goods and services (pp. 44-73); trademark registration, trademark monitoring (pp. 80-83); international trademarks (pp. 93-96); (European) Community trademarks (pp. 98-164); competition law (pp. 176-195); geographical indications (pp. 210-224) interlaced throughout with humorous parts and many, many coloured illustrations.

As it can already be seen from this overview of its contents, more than a quarter of the book is about Community trademarks. This is only right because ever since Hungary joined the EU, this is a part of the Hungarian reality. Clearly, we did not think then that Community trademarks would flood this small country overnight although it should not have come as a surprise considering the power relations in the world economy. The book presents the activity of not only the Office for Harmonization in the Internal Market but also that of the principal forum in trademark cases, the European Court of Justice, as well as interesting decisions of the latter in several trademark cases, in a concise manner that reads well.

It adds a special atmosphere to the book that beside its already mentioned legal picture-book nature, its two imaginary characters keep showing up and fumbling and in the end always fail in the complicated world of trademark law. They are *Luzer*, who piles failure upon failure, and his clumsy lawyer, *Dr. Pfutscher*, who has not got much of a clue what to advise to his client. A few examples: Luzer establishes the Atlantic company and files a trademark application for the same name but an objection is raised against it, so he has to change the name of the company. Then he starts to use the name Elka but this time the owner of the Melka trademark files a lawsuit against him for trademark infringement. After this, he continues his commercial activities under the trademark of a German company called Trenta but because he starts to

distribute the products of a competitor of the German company, the German proprietor of the trademark not only withdraws his commercial representative right but prohibits him to use the trademark. Then he files an unfortunate trademark application again ("*Super Campaign*") but this one is rejected by the Hungarian Patent Office, etc. Of course, these stories condensed here into single sentences are especially entertaining as they are written in a dramatised style and "spiced" with humour, and the illustrations showing Luzer's sometimes excited, sometimes desperate face make them downright hilarious.

The author's intention by including these funny and short stories is very well characterised by the cover of the book where we can see Luzer in the basket of a tumbling balloon which has a huge letter R in a circle written on it.

The playful, humorous tone of the book makes it unique among books on trademark law or trademarks in general – I have not encountered such work in the international literature even though it is not rare abroad that books dealing with the subject of trademarks are published for companies and non-professionals with an "appetising" aim.

Even if the intellectual and material investments of Pintz lead to small returns, although he would deserve the opposite, he has done a great service to the Hungarian trademark culture by writing and publishing this book.

An English version of this book is intended to be published under the title "The Mark of Success".

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## Book review

**F. MAYER: Epizódok JEDLIK Ányos életéből 2. kiadás  
(Episodes from the Life of Ányos JEDLIK, 2<sup>nd</sup> Edition),  
Jedlik Ányos Alapítvány, Budapest 2010, p. 194**

Jedlik was one of the most famous Hungarian inventors of the 19<sup>th</sup> Century; he had over 70 inventions, the names of three of which are inscribed on his gravestone: electric motor, dynamo, lightning conductor.

The Benedictine monk, who was born in 1800, was a grammar school teacher in Győr at first, then a college teacher at the Academy of Pozsony [*today: Bratislava*] before becoming a university professor at the Pest University of Sciences where he became dean and rector later; he was committed to the science of physics all along. His statue stands in the main square of the city of Győr and a scale model of the statue can be seen in the stairway hall of the Hungarian Patent Office.

Several papers have been written about his work since the end of the 19<sup>th</sup> Century, *Mayer's* book complements these writings. The book is structured as follows: Biography. Notable Teachers. Jedlik as a Grammar School Teacher. Jedlik as a university professor. Jedlik in the Hungarian Revolution of 1848. Jedlik's library. Jedlik's works. Jedlik's awards. Jedlik, the technical creator. Jedlik's private life.

For a wider audience of readers, probably his conduct during the Hungarian Revolution of 1848 is the most interesting, when he was fulfilling the office of dean at the University. His diary that he kept from the first day of the revolution, 15 March 1848, in the beginning in a very detailed manner, later in a few sentences every 2 or 3 days, gives account of all events that affected himself and the university all the way until the suppression of the war of independence and the execution of Prime Minister Count Battyány in 1849. Even though he was a substantially unassertive character as a Benedictine teacher and a scientist, he fulfilled his "safeguarding" obligations in person repeatedly and took part in the retrenchment digging works as well. Later, when Pest was under bombing, he saved the most valuable items of the university physics lab and after the suppression of the war of independence he participated in the assessment and reparation of damages.

What makes the review of the latest book on this inventor, who was pioneer in his own time, so timely is that after the change of the regime, on the initiative of the President of the Hungarian Patent Office, the Minister of Industry and Trade established the Jedlik Ányos Award, which is awarded annually in order to recognize successful inventors' work and the scientific achievement of outstandingly standards and efficiency in protection of industrial property. The deed of award and the bronze plaquette are decorated with Jedlik's half-length portrait.

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