

**Report Q 156**

in the name of the Hungarian Group  
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**International Exhaustion of Industrial Property Rights**

**Ad XVI/1**

With respect to international exhaustion, we present the statutory Hungarian regulation separately with regards to each industrial property right.

**1. Patents**

According to the provisions of Act XXXIII of 1995 on the Protection of Inventions by Patents (hereinafter: the "Patent Act"), the holder of the patent has an exclusive right for utilization on the basis of which the patentee can act against any person who - without the consent of the patent holder - for the purpose of manufacturing, using or distributing, imports the patented product or a product directly manufactured by the patented process (Sections 19(1) and 19(2) of the Patent Act).

According to a further provision of the Patent Act, the exclusive right of utilization arising from patent protection does not cover further acts related to a product distributed within Hungary by the patentee, or with his express consent (Section 20 of the Patent Act).

The reasoning related to the Patent Act sets forth that - on the basis of the collision norm *lex loci protectionis* and the territoriality of patent protection - the effect of the exhaustion of patent rights is limited to the distribution of the product in Hungary, therefore, the applicability of "international exhaustion" is excluded.

On the basis of the above, the owner of the patent right can use the patent against parallel imports from another country, when the imported product has been put on the market in that country by the patentee or with his consent.

**2. Trademarks**

According to the provisions of Act XI of 1997 on the Protection of Trademarks and Geographical Indications (hereinafter: the "Trademark Act"), on the basis of the trademark proprietor's exclusive right to use the trademark, without the consent of the trademark proprietor the importing of goods bearing the mark is prohibited (Sections 12(1) and 12(3) of the Trademark Act).

However, trademark protection shall not entitle the trademark proprietor to prohibit the use of the trademark in relation to goods which have been placed on the domestic market by the proprietor or with his express consent (Section 16(1) of the Trademark Act).

The above provision shall not apply where the proprietor has a legitimate reason for opposing further commercialization of the goods, in particular if the state or condition of the goods has been changed or impaired (Section 16(2) of the Trademark Act).

The reasoning related to the Trademark Act sets forth with respect to this provision that the exhaustion of the right is regulated in accordance with Section 7 of Directive No. 89/104/EGK with the necessary difference being that until Hungary's accession to the EU, the providing for the exhaustion of the right is only justified in the case of the introduction of the goods on the domestic market.

### **3. Utility models**

Act XXXVIII of 1991 regulates the protection of utility models (hereinafter: "Utility Model Act").

According to the provisions of the act, on the basis of the utility model protection, the owner's exclusive utilization right extends to the manufacture, use, import and distribution of the protected product within business activities (Section 12 of the Utility Model Act).

As a result, the owner, on the basis of his utility model right, is entitled to prohibit the import without his consent of products injuring his utility model right. According to the Utility Model Act, the unauthorized use of the model protected by utility model protection infringes the utility model right (Section 19(1) of the Utility Model Act).

The Utility Model Act contains no specific provision with respect to the exhaustion of rights and there has been no jurisprudence on this point either. However, from the provision regarding the infringement of the utility model right, the following conclusion can be drawn: in case the owner of the utility model right distributed the product which embodies the utility model in the domestic market, the person who acquired ownership rights over such product utilizes it on the basis of its ownership right, therefore the issue of whether such utilization is unauthorized or not, cannot arise.

### **4. Layouts of microelectronic semiconductor products**

According to the provisions of Act XXXIX of 1991, on the basis of the protection, the right owner has an exclusive utilization right of the layout, which includes but is not limited to the import and distribution for commercial purposes of the layout or the semiconductors embodying the layout.

According to the Act, however, the protection does not extend to the import and further distribution of the layout and the semiconductors embodying the layout which were distributed by the right owner or with his consent (Sections 7(1) and 7(4) of the Act).

In the case of the layout of chips - as opposed to all other industrial property rights - the international exhaustion of the right prevails, therefore, the parallel importation of goods is allowed.

## **5. Industrial designs**

Law-Decree No. 28 of 1978 on the Protection of Industrial Designs (hereinafter: "Law-Decree") does not contain any specific provision regarding the exhaustion of rights. According to the Law-Decree, on the basis of the protection of the industrial design, the exclusive right of the owner includes, but is not limited to, the import of the product embodying the industrial design. Therefore, the owner can prohibit the parallel import of the products.

In addition to the protection of industrial designs on the basis of the Law-Decree, copyright protection can also apply to industrial designs (Section 4 of the Law-Decree).

Taking into consideration that the questions raised regarding international exhaustion required the examination of the issue only with respect to industrial property rights, we do not wish to go into detail in connection with the exhaustion of copyright protection. However, we would like to draw attention to the fact that according to Act LXXVI of 1999 on Copyright ("Copyright Act"), exhaustion only applies to further transfers of ownership regarding the copies of work, and that copyright is exhausted only by distribution in Hungary of the copies of work (Section 23(5) of Copyright Act). Therefore, the copyright owner can prevent parallel import.

## **6. Expected changes in the regulation**

According to Government Resolution No. 2140/2000 on the Legal Harmonization Program, the regulation of all intellectual property rights must be modified so that instead of national exhaustion, regional exhaustion shall apply upon Hungary's accession to the EU. The Resolution also states that the rules regarding exhaustion shall be established in accordance with the jurisprudence of the European Court of Justice.

### **Ad XVI/2 and 3**

These questions are only relevant if international exhaustion applies, so taking the Hungarian regulation into consideration, we do not set forth an analysis in this respect.

### **Ad XVI/4**

International exhaustion cannot apply where a product has been introduced on the market in a country pursuant to a compulsory licence. This would be contradictory to the territoriality principle of the protection. If in country A the requirements for the issuance of a compulsory licence are met, this does not necessarily mean that such are also fulfilled in country B.

The exhaustion of rights relates to the distribution by the right-owner or with his consent, and the protection of industrial property would be unreasonably weakened if the express consent of the right-owner could be replaced also in this respect by a compulsory licence.

### **Ad XVI/5**

Only agreements in which the right-owner expressly consents to the import into Hungary of the protected products can give rise to international exhaustion.

### **Ad XVI/6**

According to Hungarian trademark law, not even national exhaustion applies if the products or their packaging have been modified or impaired and the right-owner has a legitimate interest for opposing further trade with the goods.

This regulation is justified for all kinds of industrial property, even if international exhaustion applies.

### **Ad XVI/7**

On the basis of the invitation contained in this point, we would like to present the following:

In our opinion, the statement made in Point VII of the Working Guideline Q156, according to which the issue of international exhaustion has not only legal, but also political and economic aspects, is of major importance. On the basis of this statement, we would like to point out that the precondition for the legal harmonization is the existence of the appropriate political and economic circumstances.

Thus, before taking a standpoint concerning international exhaustion, it is necessary to carry out an economic analysis which sets forth its positive and negative effects, with regard to its consequences for the public wealth, interests of national economies and individual IP owners.

It would be advisable if the WTO would carry out surveys concerning the advantages and disadvantages of the introduction of international exhaustion relating to its consequences on the economy, social circumstances, markets, innovation and technological progress and the results of such would hopefully indicate whether the recommendation for a unified regulation of international exhaustion is desirable.

If the economic reasons for the introduction of international exhaustion exist, we shall examine the issue of international exhaustion from the point of view of each IP right separately.

The rights arising from each IP right are different not only with respect to the **subject and function** of the protection but also its **duration (possibility of renewal)**. It must be kept in mind that the same product may be protected simultaneously by several IP rights (i.e., software products are protected by copyright, trademark law and - if its requirements are met - by patent law).

Taking into consideration the above aspects - with respect to the existing relationship with copyright protection - it would be advisable to expand the examination beyond industrial property rights to cover all kinds of intellectual property rights.

## Summary

The Hungarian statutory law provides for the national exhaustion of patent and trademark rights.

With respect to the protection of the layouts of microelectronic semiconductors, the law provides for international exhaustion.

On the basis of the regulations pertaining to legal harmonization upon the accession of Hungary to the European Union, regional (European) exhaustion is envisaged in lieu of national exhaustion, and the rules with respect to exhaustion of rights shall be established in accordance with the jurisprudence of the European Court of Justice.

The essence of our position with respect to international exhaustion is the following:

- it would be advisable if - prior to taking a stand concerning international exhaustion - the WTO investigated the overall impact of the general acceptance of the principle of international exhaustion.
- should the general acceptance of international exhaustion be reasonable, it would be advisable to examine the issue of international exhaustion from the point of view of each IP rights separately, and - with respect to the existing relationship with copyright protection - to expand the examination beyond industrial property rights to cover all kinds of intellectual property rights.

## Résumé

Parmi les droits de protection de propriété industrielle, le droit positif hongrois dispose de l'épuisement national de droit en cas du droit des brevets d'invention et des marques de fabrique et de commerce.

Selon les règles de la loi, les règles de l'épuisement international de droit s'applique aux topographies de semi-conducteur.

Selon les dispositions applicables à la harmonisation de droit, les règles de l'épuisement régional de droit s'appliqueront au lieu des règles de l'épuisement national de droit à partir du moment de l'adhésion de la Hongrie à l'Union Européenne et les règles de l'épuisement de droit devront être élaborées en conformité avec la jurisprudence de la Cour de Justice Européenne.

Résumant notre position concernant l'épuisement international de droit:

- avant de prendre position à l'égard des règles de l'épuisement international de droit, il serait recommandable que la WTO examine les effets de la généralisation des règles de l'épuisement international de droit;

- si l'introduction des règles de l'épuisement international de droit est justifiée, il serait pratique d'examiner cette question séparément à l'égard à chaque droit de propriété intellectuelle et d'étendre l'investigation - en prenant en considération les droits de propriété littéraire - à tous les différents droits de propriété intellectuelle.

### **Zusammenfassung**

Hinsichtlich der gewerblichen Schutzrechte bestimmt das ungarische positive Recht für das Patent- und Markenschutzrecht die inländische Rechtserschöpfung.

In Bezug auf Chiptopografien gehen die gesetzlichen Bestimmungen von dem Grundsatz der internationalen Rechtserschöpfung aus.

Gemäß der Bestimmungen hinsichtlich der Rechtsharmonisierung tritt ab dem Zeitpunkt des Beitritts Ungarns zur EU die regionale Rechtserschöpfung an die Stelle der inländischen und müssen die Regelungen der Rechtserschöpfung im Einklang mit der Rechtsprechung des Europäischen Gerichtshofes heraus gebildet werden.

In Bezug auf die internationale Rechtserschöpfung vertreten wir folgende Auffassung:

- vor der Abgabe einer die Frage der internationalen Rechtserschöpfung behandelnden Stellungnahme empfiehlt sich die Untersuchung der Wirkungen einer allgemeinen Anerkennung der internationalen Rechtserschöpfung durch die WTO;
- soweit die Einführung der internationalen Rechtserschöpfung angezeigt ist, ist es sinnvoll, die Problematik für jede Art geistigen Eigentums getrennt zu untersuchen und diese Untersuchung über die gewerblichen Schutzrechte hinaus - unter Beachtung der mit dem Urheberrecht bestehenden Zusammenhänge - auf jedwede Art des geistigen Eigentums auszudehnen.