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Report Q186

in the name of the Hungarian Group
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Punitive damages as a contentious issue of Intellectual Property Rights

Questions

- 1) a) *Does your country have a concept of punitive damages?*

In order to answer this question, it seems to be reasonable first to present a short overview on the Hungarian law on compensation for damages.

In case of infringement, the holder of IP rights may claim compensation for damages in accordance with the general provisions of civil liability **under the Civil Code**.

Section 339 of the Hungarian Civil Code provides that:

“whoever unlawfully causes damage to another person shall be liable for compensation. He shall be relieved of liability if he proves having acted in such a way as might generally be expected in the given situation”.

So, the compensation for damages is based on the doctrine of culpability.

In case of a claim for compensation, the person who suffered the damage shall evidence the following:

- i) the amount of his/her damages suffered,
- ii) the causality link between the behaviour of the other party and the suffered damages, and
- iii) that the other party acted unlawfully. The party who suffered damage shall state the legal ground of the unlawful behaviour (e.g. breach of contract or tort), and the infringing party may provide evidence that his/her behaviour has not been unlawful (e.g. because the other party gave consent to the behaviour, etc.). The infringing party can be ordered to pay compensation for damages unless he/she can prove that his/her behaviour was not culpable under the circumstances.

It should be noted however that other sanctions against infringement of IP rights (injunction, destroying the infringing goods, recovery of enrichment, etc.) shall be applied on an objective basis (strict liability), even where there is no actual fault (culpability) of the infringing party.

Section 355 (4) of the Civil Code sets forth that

“by way of compensation, the loss of value in the property of the injured person and the loss of profit sustained as a consequence of the damaging act, as well as the indemnification of expenses needed for the reduction or elimination of the financial and non-financial losses shall be given.”

Thus, Hungary does not have the concept of punitive damages. The damages award is meant to provide full repair i.e. to compensate a party from the loss suffered. This is expressed by the doctrine of prohibition of benefiting from a loss.

In the course of litigation and the fact finding procedure, difficulties may arise in evidencing the reduced turnover sold by the products of the plaintiff and the amount of the resulting damages (outstanding profits) or the damage arising from the infringement of the plaintiff's trademark. Hungarian courts are usually reluctant to award a high amount of damages as compensation for infringement and they require a high degree of convincing evidence relating to loss of profits. The limitation of damages concerning remote losses is usually determined by the so-called cut-off point in the chain of causality.

Further, pursuant to Section 359 (1) of the Civil Code:

“if the extent of damage cannot be precisely calculated, even if only in part, the person responsible for causing the damage can be compelled by court to pay a general indemnification that would be sufficient for providing the aggrieved person with full financial compensation.”

This type of general indemnification is deemed as compensation of damages not calculated but only estimated by the court. Under a mandatory guideline of the Civil Senate of the Supreme Court (Guideline No. 49 of the Civil Senate of the Supreme Court, abbreviated as PK 49) the difficulties arising in the course of adjudicating damages shall be deemed significant only if they arise in connection with the establishment of the amount of damages. The court may rule only that the extent of damage cannot be precisely calculated if all available and reasonable evidence has been previously collected in order to calculate the amount of damages.

Hungarian law seems to be in compliance with the EU Enforcement Directive 2004/48/EC which grants national legislation options to establish rules relating to calculating appropriate damages.

b) *If so, does it apply to patents, trade marks and other IPR?*

In a specific case, in relation to enforcement by the collective copyright management organizations, in Act No. LXXVI of 1999 on Copyright (“Copyright Act”), Hungarian law contains provisions on pre-established damages.

This provision is in compliance with Article 45 of the TRIPS Agreement which provides that, in appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of **pre-established damages** even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

Pre-established damages may be an instrument which enables the right-holder to claim damages without proving the actual amount of loss. As the pre-established damages might be more than the actual loss, they may constitute a payment obligation which is more than the mere compensation of pure material loss.

For example, under Section 22 of the Copyright Act, persons engaged in the manufacture, import and distributing of blank video and audio media or reprographic equipment, are obliged to notify the collective copyright management organization concerning the volume that is marketed or imported as well as the type of the video and audio media or equipment before the tenth day of each calendar month. The collective copyright management organization is, furthermore, entitled to request the operators of reprography equipment to provide the necessary information for determining the appropriate fee. In the case of failure to comply – even partially – with the obligation to provide information and disclose data, a flat charge must be paid in order to cover the extra expenses of the collective copyright management organization in addition to the fair remuneration that is otherwise due. The amount of the flat charge is identical with the fee that is payable. A similar provision applies to the omission of report of public performance of so called small right musical and literary works (Section 25 (6) of the Copyright Act).

- c) *Would the possibility of an award of punitive damages be of benefit in infringement cases?*

In view of the Hungarian Group, punitive damages, in principle, might be deterrent against the infringers.

However, it shall be emphasized that *effective means of preliminary injunction* shall be regarded as primary means to prevent infringement. Therefore, special attention shall be paid to the effectiveness of preliminary injunctions. Further, preliminary injunction ordered in due time may prevent occurrence of high amount of losses.

Further, the Hungarian Group notes that in addition to preliminary injunctions to be ruled under the Civil Procedure Code, the court may order in appropriate cases, and in particular if the prejudiced party demonstrates circumstances likely to threaten the recovery of damages, and if necessary without the other party being heard, *precautionary seizure of the movable and immovable property of the infringer, including the blocking of his bank accounts and other assets*. (Such measures may be ordered under sections 185 and 187 of Act No. LIII of 1994 on the Enforcement of Court Decisions.)

- d) *Is your Group in favour of courts having power to award such damages in IP cases?*

It must be taken into consideration that **rules on compensation for damages relating to IP infringement must fit into the general rules of the national laws on damages** which is one of the core areas of national civil laws.

In all types of violation of law, the Hungarian courts award only compensatory damages. Since punitive damages are not available neither in contractual disputes nor in tort cases, in our view, there is no reasonable justification to separate (“to privilege”) the compensation for damages arising from infringement of IP rights from other cases of violation of private legal rights. The unity of the legal system shall be preserved and other means of enforcement of rights (i.e. preliminary injunction) shall be applied effectively in order to protect the right-holders’ interests.

In Hungary, the codification of a new Civil Code has been commenced. The concept of the new code does not envisage to treat differently the damages for IP infringement. All Hungarian IP laws refer regarding the claim for damages of the right holder to the Civil Code.

If the gravity of the infringement justifies (i.e. counterfeiting, piracy), in addition to the civil law sanctions, criminal sanctions can be applied, as set forth in the TRIPS Agreement. Under Hungarian law, criminal sanctions can be applied also against legal persons. In cases of severe infringement, the criminal sanctions are appropriate means to achieve the aim of punitive damages, namely to punish the wrongdoer.

- 2) *If punitive damages are available:*
- a) *In what types of situations can punitive damages be awarded?*
N/A
- b) *How is the amount (quantum) of damages assessed?*
N/A
- 3) *Is there an obligation on a party to take legal advice to ensure there is no infringement? If so*
- a) *what is the obligation and when does it arise and*
There is no such obligation in Hungary.
- b) *how is that advice assessed in subsequent infringement proceedings?*
The infringing party can be ordered to pay compensation for damages unless he/she can prove that his/her behaviour was not culpable not even negligent, in other words he/she acted in due care. ("[whoever unlawfully causes damage] .. shall be relieved of liability if he proves having acted in such a way as might generally be expected in the given situation.")
There is no case-law which would provide an interpretation that if a party takes legal advice to ensure there is no infringement would exclude its liability on the basis of lack of culpability/negligence.
In case of patents, utility models and designs, it is possible to initiate a non-infringement proceedings before the Hungarian Patent Office. However, if the result of such proceedings does not confirm the lack of infringement, the commencement of such proceedings would not exempt the infringer from the applicable sanctions arising from infringement.
- 4) a) *Is there a pre-trial discovery system which allows an IP owner to review the defendant's behaviour?*
No, there is no pre-trial discovery system in Hungary.
Under Hungarian Civil Procedural Code, even before the commencement of the litigation, the court may order a preliminary fact-finding procedure (collection of evidence) inter alia if it is likely that:
- i) the carrying out of this fact finding during the procedure or at a later time would not be successful or would be more difficult; or
- ii) carrying out of the preliminary fact finding would enable the court to finish the procedure within a reasonable period of time.
- In trademark and all other IP infringement actions, the court may order the preliminary fact-finding procedure subject to providing of guarantees.
If a party in an IP infringement action has already substantiated its statements to a reasonable extent, upon the request of the party providing such proof, the court may require the other party to present and allow for review of the certificates and other material evidence in its possession.
- b) *If so, are the parties required to give discovery of documents held abroad?*
N/A

- 5) *What is the impact in court proceedings in your country of the ability of courts in other countries to award punitive damages?*

Art. 34 (2) of Legal Decree No. 13 of 1979 on the International Private Law ("IPL") stipulates that if a Hungarian court applies foreign law, it may not establish a legal consequence on the grounds of liability for damage caused which is not recognized by the Hungarian law.

Pursuant to Section 72 (2) of IPL, the foreign decision shall not be recognized, if such recognition would violate public order in Hungary.

Although there is no published case law on this point, it cannot be excluded that a Hungarian court would deny the enforcement of a foreign decision ordering the payment of punitive damages.

In order to support this opinion, we refer to Art. 22 of the Proposal for a Regulation of the European Parliament and the Council on the law applicable to non-contractual obligations ("ROME II") which stipulates that

"The application of a provision of the law of any country specified by this Regulation may be refused only if such application is manifestly incompatible with the public policy ("ordre public") of the forum, in particular when the application of the designated law would have the effect of causing excessive non-compensatory damages to be awarded."

- 6) *Proposals for harmonising the treatment of punitive damages and the processes concerning them in court proceedings?*

Any proposal for harmonising the treatment of punitive damages shall take into consideration that rules on compensation for damages relating to IP infringement must fit into the general rules of the national laws on damages which is one of the core areas of national civil laws.

Therefore, on the basis of the reasons set forth in the answer to Question 1d) above, the Hungarian Group considers that **there is no need to harmonise on international level the legal systems relating to the introduction of punitive damages for infringement of IP rights.**

There is no reasonable justification to separate the compensation from damages arising from infringement of IP rights from other violations of laws (breach of contract, tort cases).

The TRIPS Agreement provides that in cases of counterfeiting and piracy, in addition to the civil law sanctions, criminal sanctions shall be applied. Such criminal sanctions are appropriate means to achieve the aim of punitive damages, namely to punish the wrongdoer. In other infringement cases – which do not qualify as counterfeiting or piracy – it is not justified to award such compensation for damages which not only compensates the loss but – contrary to other tort cases – also punishes the infringer.

Other means of enforcement of rights (i.e., preliminary injunction) shall be applied effectively to protect the right-holders' interests.

Summary

The Hungarian Group considers that rules on compensation for damages relating to IP infringement must fit into the general rules of the national laws on damages which is one of the core areas of national civil laws. There is no reasonable justification to separate the compensation from damages arising from infringement of IP rights from other violations of laws (breach of contract, tort cases).

The TRIPS Agreement provides that in cases of counterfeiting and piracy, in addition to the civil law sanctions, criminal sanctions shall be applied. Such criminal sanctions are appropriate means to achieve the aim of punitive damages, namely to punish the wrongdoer. In other infringement cases – which do not qualify as counterfeiting or piracy – it is not justified to award such compensation for damages which not only compensates the loss but – contrary to other tort cases – also punishes the infringer.

Other means of enforcement of rights (i.e., preliminary injunction) shall be applied effectively to protect the right-holders' interests.

Résumé

Le Groupe Hongrois considère que les règles pour l'indemnité en réparation des dommages concernant l'infraction de la Propriété Intellectuelle (PI) doivent s'accorder avec les règles générales des lois nationales pour les dommages étant l'une des parties centrales des lois civiles nationales. Il n'y a pas de justification raisonnable de séparer les compensations des dommages résultant de l'infraction des droits de la propriété intellectuelle, des autres violations des lois (rupture de contrat, cas de tort).

Le TRIPS Agreement stipule que dans les cas de contrefaçon ou piraterie, en plus des sanctions des lois civiles, des sanctions criminelles doivent être appliquées. De telles sanctions criminelles sont un moyen approprié d'accomplir le but des dommages punitifs, à savoir de punir le malfaiteur. Dans d'autres cas d'infractions – lesquels ne sont pas qualifiés comme contrefaçon ou piraterie – il n'est pas justifié d'attribuer de telle réparation de dommages laquelle outre la compensation pour la perte –contrairement à d'autres cas de tort – punit aussi le violateur.

D'autres moyens de faire valoir les droits (i.e. injonctions préliminaires) doivent être appliqués efficacement pour protéger les intérêts du propriétaire de droit.

Zusammenfassung

Die Ungarische Gruppe vertritt die Ansicht, dass die Regeln bezüglich Schadenersatz für Verletzung von geistigen Eigentumsrechten mit den allgemeinen Regeln der nationalen Gesetzgebung über Entschädigungspflicht, als eines der Kernelemente des Zivilrechts, im Einklang sein müssen. Es gäbe keine gerechtfertigte Erklärung für eine getrennte, unterschiedliche Behandlung von aus der Verletzung von geistigen Eigentumsrechten und aus anderen Rechtsverletzungen (wie aus Vertragsbruch, unerlaubter, rechtswidriger Handlung) herrührenden Schadenersatzfällen.

Das TRIPS Abkommen sieht vor, in Fällen von Nachahmung und Piraterie, über zivilrechtliche Sanktionen hinaus auch strafrechtliche Sanktionen anzuwenden. Derartige Sanktionen sind geeignete Mittel dafür, die Zielsetzung des Strafe einschliessenden Schadenersatzes zu erfüllen, nämlich den Gesetzübertreter zu bestrafen. In anderen Verletzungsfällen, die sich nicht als Nachahmung und Piraterie erweisen, ist es nicht gerechtfertigt, eine den Rechtsverletzer über den nur für die Verluste aufkommenden Schadenersatz hinaus noch zusätzlich strafende Entschädigung anzuwenden.

Zur Geltendmachung der den Interessen der Rechtsinhaber dienenden Gesetze sollen auch andere Massnahmen (wie z.B. einstweilige Verfügungen) wirksam angewendet werden.