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Report Q190

in the name of the Hungarian Group
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Contracts regarding Intellectual Property Rights (assignments and licenses) and third parties

Questions

1) *What forms of property right do IP rights take in your country?*

Patents, SPC and plant varieties (under Act XXXIII of 1995 on the Protection of Inventions by Patents);

- Designs (under Act XLVIII of 2001 on the Protection of Designs);
- Utility models (under Act VIII of 1991 on the Protection of Utility Models);
- Topography of microelectronic semiconductors (under Act XXXIX of 1991 on the Protection of the Topography of Microelectronic Semiconductors);
- Trademarks and geographical indications (under Act XI of 1997 on the Protection of Trademarks and Geographical Indications);
- copyright and related rights (under Act LXXXVI of 1999 on the Protection of Copyright);
- know-how (under Act IV of 1959 on the Civil Code).

2) *Is it required to register an assignment or licence of IP rights in order for it to be effective*

a) *between the parties and*

b) *against third parties?*

The registration of an assignment or a licence agreement concerning IP rights is not a precondition to validity either as regards the relation between the parties, or vis-à-vis third parties.

In the case of an assignment, the assignee will obviously request the registration of his right following the assignment, since the existence of his right can only be evidenced and enforced by way of registration in the respective register. Any right relating to a IP right subject to registration may only be claimed against a third party acting in good faith and acquiring a right for consideration, if it has been entered in the respective IP register.

In the case of copyright and know-how, there is no statutory possibility of registration.

Economic rights as defined in the Copyright Act may be independently assigned: collective works, employees' works, software, databases, works made for hire for commercials and works made upon synchronisation agreements.

Beyond the above cases, the author may give a licence to the use of his work under a licence agreement.

3) *Does the*

a) *exclusive and*

b) *non-exclusive licensee of an IP right have a right to bring proceedings for infringement, and if so, what conditions must be satisfied for right to arise?*

In the case of infringement of a registered IP right, the licensee may request the right owner on the basis of an exclusive, as well as a non-exclusive licence agreement to take the appropriate measures to terminate the infringement. Should the IP right owner fail to act within 30 days following such notification, the licensee registered in the respective register shall have the right to proceed against the infringement.

As regards copyright law, the right to proceed against the infringer as detailed above shall be granted to the user by force of law only under an expressly exclusive licence agreement. In the case of a non-exclusive licence, the licensee shall have the right to proceed against the infringer only if expressly provided under the licence agreement.

In the case of know-how, the right of the licensee to proceed depends on the provisions of the know-how transfer agreement.

4) *Is a licence transferable*

a) *by the licensor and*

b) *by the licensee?*

The owner of an IP right or copyright may assign his claims arising from a licence agreement by way of an assignment agreement to any third party. (Assignment is understood in this context as a term of civil law not as a way of "transfer of ownership" in an IP right.)

The licensee of an IP right or copyright may only assign the licence to a third party, or grant further licence of use to a third party, with the express consent of the IP right or copyright owner.

The above provisions are set down in the respective acts regulating each type of IP rights.

5) *What is the effect on an assignment or licence of the invalidity of the underlying IP right?*

Pursuant to the laws regulating registrable IP rights, the licence agreement shall terminate if the protection of the IP right ceases.

If the protection of an IP right is terminated with retroactive effect, only that part of the licence fees may be reclaimed from the former IP right owner which has not been covered by the economic gains resulting from the use of the IP right.

In general, patent licence agreements are not restricted to a licence on the patent but the patent owner provides the know-how and other information relating to the patent as well. The parties often conclude the patent licence agreement during the examination procedure, when the granting of the patent is still pending.

Therefore, the parties to a patent licence agreement may agree that the agreement shall exist regardless of the granting of the patent, furthermore, that the existence of the agreement shall not be affected if the patent is cancelled with retroactive effect during the term of the agreement. At the same time the parties stipulate how the cancellation would affect the amount of the licence fee and the other contractual provisions. (For this purpose, the parties often consider the technological solution as know-how.)

6) *Can IP rights be used to provide security? If so what formalities are required?*

Proprietary rights associated with and conferred by IP ownership may be pledged as security. For the establishment of a lien on an IP right, the lien agreement shall be in writing and the lien must be recorded in the respective register. These provisions follow from the respective acts regulating each type of IP right.

Under the general provisions of the Civil Code, the independently transferable economic rights and claims as defined in the Copyright Act (see point 2 above) may be pledged as security. In our view, as regards copyright, the right stemming from the licence of the author, with due regard to the simultaneous moral rights associated with the author (e.g. right of withdrawal), cannot be pledged or given as security.

Know-how as a transferable economic right may be pledged as security.

7) *Does the bankruptcy law explicitly provide for the effect of bankruptcy on IP rights and contracts concerning them?*

The statutory provisions on liquidation and bankruptcy do not contain special provisions concerning IP rights and the related agreements.

8) *Do all intellectual property rights form part of a bankruptcy, or are some exempted?*

All IP rights fall within the scope of assets subject to liquidation and bankruptcy, no special legal provisions regulate the IP asset.

9) *What is the effect of the insolvency or bankruptcy of the licensor and the licensee on a contract regarding intellectual property?*

a) *Does one party have a right to terminate on the insolvency of the other?*

Under the Act XLIX of 1991 on Bankruptcy Proceedings, Liquidation Proceedings, the liquidator has the right to unilaterally terminate the agreements concluded by the debtor with immediate effect, or, in case no service has been performed by either party, the liquidator may rescind the agreement.

b) *Can the insolvent party assign the rights concerned?*

The liquidator of the licensor may assign the licensor's rights within the framework of the asset sale in the course of the liquidation.

The liquidator of the licensee may assign the rights and obligations under the license agreement to a third party with the consent of the licensor only, the assignment of these rights and obligations is subject to the right owner's consent. (If the licensee holds a transferable license by virtue of the licensing agreement the consent of the right owner shall be regarded as given.)

c) *What effect do express contractual terms have in this situation?*

The right owner's interests may be safeguarded by means of appropriate contractual provisions.

In case the licensor is liquidated, it serves the rights and defence of the licensee, if the licence is entered into the respective register, so that even if the IP right encumbered with the licence is transferred in the course of the liquidation, the licence shall continue to exist.

It is appropriate for the licensor to include a provision at the conclusion of the agreement under which the initiation of any proceedings against the licensee due to insolvency shall terminate the agreement.

10) *Is there any statutory or other protection for a licensee/licensor in the event of the insolvency of a licensor/licensee?*

No statutory provision provides special protection for a licensee or licensor in the event of the insolvency of a licensee or licensor.

Groups are invited to provide proposals for harmonisation in this area.

As regards the harmonisation of law:

In our assessment there are significant differences between the substantive and procedural provisions of each state, which render the possibility of harmonisation questionable.

This has been obviously recognised by the Council of the European Communities when it set forth in Article (11) of the Preamble of the regulation 1346/2000/EC on insolvency proceedings:

“This Regulation acknowledges the fact that as a result of widely differing substantive laws it is not practical to introduce insolvency proceedings with universal scope in the entire Community. The application without exception of the law of the State of opening of proceedings would, against this background, frequently lead to difficulties. This applies, for example, to the widely differing laws on security interests to be found in the Community. Furthermore, the preferential rights enjoyed by some creditors in the insolvency proceedings are, in some cases, completely different.”

This approach of the European Communities lets us conclude that the success of a harmonisation beyond the limits of the European Communities is rather problematic.

In general, license agreements are subject to permissive civil law rules thus the parties have wide possibilities at the conclusion of the agreements to find the appropriate provisions to enforce their interests, and to agree on the effects of the insolvency of any party on the legal relationship between the parties.

Summary

Economic rights in IP, and certain economic rights as defined in the Copyright Act, are assignable, their use is licensable. Consequently, they may be used as security. Acts governing IP rights generally contain permissive rules concerning the assignment, use and encumbrance of IP rights.

The statutory provisions on bankruptcy and liquidation do not contain special regulation as regards intellectual property.

The insolvency regulation of each state is different due to the different legal policies. Therefore, the possibility of the harmonisation of laws faces significant difficulties. For this reason the parties should provide for the case if any party becomes insolvent during the term of the agreement.

Zusammenfassung

Vermögensrechte hinsichtlich des geistigen Eigentums und einzelne im Urhebergesetz bestimmte Vermögensrechte sind übertragbar, die Einräumung von Nutzungsrechten ist zulässig. Infolgedessen dürfen sie als Sicherheit dienen. Die einzelnen Gesetze über das geistige Eigentum sehen im allgemeinen dispositive Regeln in Bezug auf die Übertragung, Aufwendung und Belastung vor.

Insolvenzregeln sehen keine besonderen Vorschriften im Hinblick auf das geistige Eigentum vor.

Die Insolvenzvorschriften verschiedener Staaten sind aufgrund bestimmter rechtspolitischer Erwägungen unterschiedlich, die Möglichkeit für Harmonisierung stösst auf erhebliche Schwierigkeiten. Deswegen ist es ratsam, dass die Parteien bereits beim Vertragsabschluss die Möglichkeit vorsehen, dass eine Partei während der Laufzeit des Vertrags insolvent wird.