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Report Q192

in the name of the Hungarian Group
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Acquiescence (tolerance) to infringement of Intellectual Property Rights

Questions

- 1) *The Groups are invited to indicate if their system of national law provides rules conferring an effect of the tolerance shown by the holder of an intellectual property right with regard to a third party who infringes his/her right.*

Does this effect of tolerance apply to all intellectual property rights (patents, designs, trade marks and other distinctive signs) or only to some?

The Groups are also invited to provide the justifications put forward in their country for the introduction of this rule on the acquisition of rights as an effect of tolerance and to define its scope.

Finally, the last question is to identify if the rules relating to the acquisition of rights through the effect of tolerance should be the same for different kinds of intellectual property rights.

Do national laws make a distinction between intellectual property rights that have been registered and intellectual property rights which are simply conferred by use and not by registration?

In Hungary it is only Act No. XI of 1997 on the Protection of Trademarks and Geographical Indications (hereinafter the Trademark Act) that comprises an explicit provision of the consequences of acquiescence. The relevant provisions are in Sections 17, 76/C(5) and 117(4).

Section 17

- 1) *If the trademark proprietor has acquiesced, for a period of five successive years, in the use of a later trademark in the country, while being aware of such use, the trademark proprietor shall no longer be entitled to oppose the use of this later trademark in the country, nor may he request that the later trademark be revoked on the basis of his earlier trademark [Paragraph b) of Subsection (2) of Section 33].*
- 2) *The provision set forth in Subsection 1) shall only be applied to those goods or services in relation to which the later trademark was genuinely used.*
- 3) *The provision set forth in Subsection 1) shall not be applied if the registration of the later trademark was applied for in bad faith.*
- 4) *The proprietor of the later trademark shall not be entitled to oppose the use of the earlier trademark, even though the proprietor of the earlier trademark may no longer oppose the use of the later trademark on the basis of Subsection 1).*

- 5) *The provisions of Subsections 1) to 4) shall apply mutatis mutandis to an earlier trademark of good repute, to a trademark which has become well-known in the country at an earlier date, as well as to earlier rights specified in Subsection 1) and Paragraph a) of Subsection 2) of Section 5.*

Section 76/C

- 5) *The provisions on acquiescence (Section 17) shall also apply mutatis mutandis if the earlier trademark is a Community trademark and the later trademark is a trademark registered by the Hungarian Patent Office in accordance with this Act.*

Section 117

- 4) *The time periods established in this Act in respect of the occurrence of legal consequences related to acquiescence or failure to use the trademark shall commence not earlier than the date of entry into effect of this Act. Establishment of termination is also possible on the basis of the provisions previously in effect, even if, the period of five years during which the trademark has not been used in the country expires after the entry into effect of this Act.*

In all other branches of intellectual property law (i.e. geographical indications, patents, utility models, industrial designs, semiconductor topographies, copyright), the right holders may pursue the consequences of the infringement of their intellectual property right within the general prescription period regardless of the time elapsed since they became aware of the infringement.

The rule of acquiescence has been introduced into the Hungarian law by the Trademark Act which became effective on 1 July, 1997. The new provision served to reach compliance with Art. 9 of the Directive 89/104EEC of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks.

The Hungarian Group is of the opinion that it is not necessary to have equal rules of acquiescence for all types of intellectual property rights. Namely, trademark protection as opposed to patent protection may be renewed unlimitedly. In case of industrial property rights where the protection term cannot be renewed, the effect of acquiescence would erode the content and function of the protection. Trademarks are also unique among other types of intellectual property in the sense that they are generally not intellectual creations.

Section 17(5) of the Trademark Act extends the status of the earlier registered trademark to personal rights, copyright and designations that have been actually used previously in Hungary without registration, if the use of the designation without the consent of the earlier user would be deemed unlawful. The motivation of the extension was to preclude that unregistered rights such as the above may be unfairly privileged against registered trademarks.

- 2) *The acquisition of rights by tolerance remains subject to conditions, in particular, in relation to the duration of this tolerance and the attitude expressed by the third party that is exploiting the prior intellectual property right without authorization.*

The Groups are thus invited to indicate the duration necessary for tolerance to confer a right to a third party and deprive the holder of that intellectual property right of the possibility of acting against this third party.

The question raised also involves discerning what the starting point of this duration is and the act that the holder of the right must carry out in order to interrupt this period.

Is positive action by the owner of the prior right necessary in order to start calculating the tolerance period, or can this date also be assumed?

Thus, the Groups are invited to answer the question of what the requirements are in order for tolerance to be considered to have been interrupted: is it necessary to initiate legal proceedings or is it sufficient to protest against the alleged infringement, for example, by means of a letter?

According to Section 17 of the Trademark Act the required duration of being aware by the owner of the earlier right of the use of the later registered trademark is 5 years.

The Trademark Act links the commencement of the above five-year term to the right holder becoming aware of the use of the later trademark. However, the Trademark Act does not define what exactly shall be meant by "becoming aware", nor exists an authoritative interpretation thereof in the judicial practice. According to the Hungarian Group the minimum requirement for the commencement of the period is that the proprietor of the earlier right becomes aware of the genuine use of a later registered mark to an extent that is deemed as trademark use according to the Trademark Act. The question arises whether it should be counted into the five-year term, if the later trademark is used outside of the scope of trademark infringing activities (e.g. if the later trademark appears in the address of a blank homepage).

It is also to be noted that the Hungarian law does not refer to situations when the holder of the earlier right "should have become aware of the use of the later trademark" based on the circumstances of the specific case. Such a situation may play a role in course of the judicial evaluation of a case, since it is the defendant, i.e. the holder of the later trademark, that has to prove that the five-year period of acquiescence has elapsed, including the starting point of the five-year duration.

As for the question of interrupting the five-year duration, the Hungarian Group refers again to the lack of any explicit provision of the law. Still, as in this regard the nature of acquiescence is similar to the prescription period, the Hungarian Group is of the opinion that any expressed form of protest (e.g. a letter from the holder of the earlier right) should be sufficient.

According to the understanding of the Hungarian Group, the duration can also be interrupted if the owner of the later registered mark fails to use its mark in each year (e.g. if there is use in the first three years and then there is no use in the fourth one, the acquiescence period recommences.)

- 3) *The tolerance supposes that the holder of the prior right is aware of the existence of the infringement to his right and accepts it in an intentional way.*

The question arises then of recognizing the degree of knowledge of the acts of infringement the holder of the former right must show in order for him to be considered to have accepted the conflictive exploitation.

Can this knowledge be supposed or must it be proven in a positive way?

There is no required degree of knowledge of the acts of infringement in either the law or the judicial practice. According to the Hungarian Group the knowledge must cover the fact of using the later registered mark; the definition of use is given in the Trademark Act. It is not a requirement that the owner of the earlier mark shall be conscious of the legal perspective, i.e. that the use is infringing.

The knowledge must always be proven in a positive way by the defendant. It may cause some difficulty that it is a subjective element that has to be proven, for which mostly only indirect proof exists.

- 4) *In the same way, the Groups are invited to indicate the requirements which the third party exploiting the prior intellectual property right without the authorization of its holder must meet.*

Does this exploitation have to be carried out in good faith?

And according to what criteria do the jurisprudence and the national law define this good faith?

The Groups are also invited to indicate if the third party that exploits a prior intellectual property right without authorization must be unaware of the existence of this right in order to be considered to have acted in good faith or if knowledge of the prior right does not exclude good faith?

According to the Trademark Act, consequences of acquiescence cannot be applied if the later trademark has been applied for in bad faith. The Trademark Act does not indicate whether the act of the owner of the later mark must be carried out in good faith in order to achieve acquiescence. The criteria of good faith are defined negatively in the case law, i.e. in the practice of the Hungarian courts in trademark cancellation cases, it is the criteria of bad faith that have been formulated.

Bad faith is generally captured as the contrary of good faith, including cheat, intention to mislead consumers or any other unlawful motion. Courts establish bad faith if the trademark applicant was aware at the time the application was made, that the exclusive right they apply for already belongs to someone else. In such cases the court considers that the application aimed the confusion of the earlier and the later mark, which is quite the contrary of the function of trademark protection, i.e. the distinction of goods and services. It is also an accepted court practice that in order to establish bad faith, some sort of direct or indirect economic, commercial or personal relation must be proven between the owners of the earlier right and the later (bad faith) trademark applicant.

According to the Hungarian Group ignorance of the earlier right is not an indispensable precondition of good faith. Based on the judicial practice, it is only in case of high-degree similarity or identity of the earlier and the later mark, that the court accepts the simple knowledge of the earlier mark by the holder of the later mark as a prima facie proof of bad faith.

- 5) *The Groups should also indicate if their legal system provides other conditions (such as for example, the value or the geographical extent of the infringing activity) which the exploitation of the second right by the third party must meet in order to be able to call upon the benefit of the tolerance of this right by the holder of the prior right.*

Another question relates to the conditions that have to be fulfilled by the use of intellectual property rights which are subject to tolerance.

Do national laws impose conditions on this use relating to its importance, duration or continuous nature?

Regarding the use of the later mark, the provisions on acquiescence in the Trademark Act do not require specific circumstances. Based on this, the requirements of "actual domestic use" may come into consideration. According to Section 18(2) of the Trademark Act the following shall be deemed as actual domestic use as well:

- a) use of the trademark in such a form which only deviates from the registered form of the trademark in elements which do not affect its distinctive nature;
- b) placement of the trademark on goods within the country or on their packaging exclusively for the purpose of export.

The Hungarian Group is of the opinion that it is the criteria of actual domestic use that have to be fulfilled with respect to the question of acquiescence. It is to be noted however that we are not aware of any case law on this issue.

In the Trademark Act the condition of acquiescence is formulated in the following way: "If the trademark proprietor has acquiesced, for a period of *five successive years*, in the use of a later trademark in the country, while being aware of such use...". There is no further hint in the Trademark Act regarding the duration or importance of the use of the later trademark, and there is no established case law either. However, according to our opinion, occasional infringement, i.e. use, should be treated according to the general rules of prescription, while in case of acquiescence a continuous nature (use in five successive years, see the answers for question 2) of the infringing use is definitely required. The judicial practice provides no orientation whether and how long or often intermissions in the continuous use can be tolerated with respect to the application of the consequences of acquiescence.

- 6) *If the system of national law provides for the acquisitive effect of tolerance, the question arises of identifying the consequences from the point of view of the rights of the third party who is benefiting from this tolerance.*

First of all, the question arises of discerning whether this third party may only continue the same exploitation as that which benefited from the tolerance of the holder of the prior right or if, on the contrary, he may modify the nature as well as the extent of the exploitation which he has undertaken.

The Groups are thus invited to indicate if the jurisprudence and the legal provisions in their country limit the exploitation of the prior right by the third party to the possibility of continuing that exploitation under precisely the same conditions as the exploitation that benefits from tolerance (both from the point of view of the form, the sign, the model or the product that is the subject matter of a patent and from the territorial and economic extent of this exploitation).

In addition, the question arises of identifying if the intellectual property right benefiting from tolerance (trade mark or another distinctive sign, design or invention) can be transferred to another third party and if this other third party may also profit from the tolerance from which its predecessor took advantage.

Thus, the question is to recognize if tolerance has an effect that is limited to the person who has benefited from it through the holder of the prior right or if the tolerance is attached to the sign, design or invention which has been used, independently of the person who has carried out this exploitation.

The Groups should explain the solutions adopted on this subject by their national laws.

Based on the wording of Section 17 of the Trademark Act and the principles of the judicial practice in trademark litigation, the Hungarian Group assumes that the party benefiting from the acquiescence may alter the volume of the use, but may not rely on the consequences of acquiescence in case the use is extended or changed to other goods or services.

Neither the Trademark Act, nor the judicial practice gives a definite orientation as to the transferability of the benefits of acquiescence. However, since the wording of Section 17 of the Trademark Act says that "if the trademark proprietor has acquiesced... to the use of a later trademark", we may draw the conclusion that the use, and thus benefits of acquiescence is not necessarily related to the same person, so the benefits can be transferred.

Nevertheless, we reckon that profiting from the consequences of acquiescence by a third party is only possible if there is certain connection between the two persons or companies, e.g. succession or a license agreement. A third person who begins to use the very same mark independently from the one who achieved the establishment of acquiescence, cannot benefit from the consequences of acquiescence. Therefore, transferability of the benefits of acquiescence is possible only with restrictions.

- 7) *In the same context, the question of the exhaustion of the right also intervenes.*

*Indeed, if the products or the signs benefiting from the tolerance are put on the market, the question of the freedom of circulation of these goods arises, since they can hardly be regarded **a priori** as commercialised with the authorization of the holder of the prior right.*

It should thus be discerned if the tolerance is limited to the acts of the exploitation carried out by the person who benefits from it initially or if the tolerance also extends its effects to the third parties that bought products, in particular, for their export abroad.

Section 16 of the Trademark Act states about the exhaustion of rights that "trademark protection shall not entitle the trademark proprietor to prohibit the use of the trademark in relation to goods that have been put on the market in the European Economic Area by the proprietor or by others with his expressed consent." Acquiescence cannot be regarded as expressed consent either. As for domestic distribution, the effect of acquiescence shall cover each act performed upon the same later registered mark, benefiting from acquiescence.

- 8) *The acquisition of rights through the effect of tolerance also raises the question of the definitive and irrevocable character of the acquired right.*

One can indeed ask the question of whether it is not possible to call into question the effects of tolerance, for example, by means of a regulation that organizes the coexistence of the two rights.

The Groups are thus invited to indicate if such a regulation is possible in their national systems and how it might be organized.

If the regulation mentioned in the question is to be interpreted as an agreement between the owners of the earlier and the later trademark, then the answer of the Hungarian Group is that parties are free to conclude an agreement and arrange the coexistence of the two rights according to their will and the party benefiting from the effect of acquiescence is also not obliged by law to enforce the right of use acquired by acquiescence. If such an agreement is concluded before the required five-year term of acquiescence expires, the owner of the later trademark cannot refer to the period of the agreement as acquiescence by the other party, so the term of the agreement will not be counted into the period required for the application of the consequences of acquiescence. Should the agreement be breached by one of the parties, the sanctions included in the agreement itself or according to the general rules of civil law will apply.

- 9) *Lastly, the Groups are invited to give their appreciation on the operation of the mechanism of the acquisition of rights by means of the effect of tolerance in their country.*

And the Groups are also invited to indicate if the rules in their country, as they exist, could be used as a basis for possible international harmonization.

The Hungarian Group is not aware of any court proceeding in Hungary where acquiescence was an issue, which may be due to the fact that the respective provision entered into force only on 1 July 1997, making this commencing date of any potential acquiescence period. Therefore it was not until 1 July 2002, that acquiescence terms could expire. Nevertheless, it is clear that in the Hungarian legal system acquiescence is a tool of defense in the hands of the proprietor of the later mark when being sued for infringement of an earlier right. If acquiescence is referred to successfully, infringement of the earlier right will not be established.

It is important to note, that acquiescence is not a prescription-like process in the Hungarian law, therefore, the right of the earlier owner will never be acquired by the owner of the later trademark. According to Section 17, Subsection 4 of the Trademark Act, the acquiescence leads to a co-existence of the earlier and the later trademarks.

II) Proposals for harmonization

The Groups are invited to formulate suggestions on the possible international harmonization of laws of intellectual property in the field of the effect of the tolerance of acts of infringement.

These suggestions should be founded on the evaluation that the Groups make of the legal system of their country, so as to base future harmonization on the legal solutions which appear to be the most effective and easiest to implement.

- 10) *First of all, the Groups should formulate an opinion as to the intellectual property rights which could be damaged by the effect of tolerance of an infringement.
Does this tolerance have to take effect with regard to all intellectual property rights or only for some (for example, for distinctive signs)?*
- 11) *The Groups are also invited to give their opinion as to the nature of the tolerance, if it were to be the subject of international harmonization: is it to be limited to being a means of defence in the event of infringement proceedings or should it confer a right pertaining to the second user by date?*
- 12) *The Groups are also invited to formulate suggestions as to the conditions (such as: duration, extent and value of the second exploitation by date, the knowledge of the infringement by the holder of the prior right etc.) which the tolerance should fulfil in order to produce legal effects in the event of possible international harmonization of intellectual property rights.*
- 13) *Finally the Groups can formulate any additional opinions as to the possible international harmonization of the rules of intellectual property rights on the conditions and effects of the acquisition of rights by means of the effect of tolerance.*

The Hungarian Group is of the opinion that it is not reasonable to introduce the notion of acquiescence into other fields of intellectual property, especially into patent law, as the term of patent protection is limited and cannot be renewed, which would make restrictions such as the consequences unfair and contrary to the essence of patent protection.

The Hungarian Group, however, raises the idea whether acquiescence could possibly be introduced into the competition law as a tool of defense against claims based on passing off. Currently, in case of continuous activity, the consequences of passing off may be claimed without any time limit.

As it has been noted many times above, the provisions on acquiescence in the Hungarian Trademark Act are rather laconic, and due the lack of relevant case-law principles of judicial practice can only be applied.

As for the concept of an international harmonization the Hungarian Group believes that the effect of acquiescence should be available only in case of rights of practically unlimited term. We also support that the privileged position of the earlier right should be preserved, therefore, the acquiescence should be a tool for the owner of the later trademark as defendant with which they can argue against the establishment of infringement, but no "active" claim shall be based on the effect of acquiescence.

Summary

The Hungarian Group establishes that in Hungary the rule of acquiescence exists exclusively in the Trademark Act. The respective provision is rather laconic, and there is practically no court case in the subject, thus many aspects of this rule remains without explanation by either law or judicial practice. Many of the explicitly unanswered questions may be solved relying on general civil substantive law and procedural law provisions and related judicial principles. Certain questions should be explicitly dealt with in the national law, e.g. the regularity or continuous nature of use.

Résumé

Le Groupe hongrois établit qu'en Hongrie la règle d'acquiescement existe exclusivement dans la Loi sur les marques. La disposition correspondante est plutôt laconique, et il n'y a pratiquement pas de cas de cour dans ce sujet, donc beaucoup d'aspects de cette disposition ne sont illuminés ni par la loi ni par la pratique judiciaire. Beaucoup de questions explicitement sans réponse peuvent être résolues en s'appuyant sur les dispositions matérielles et procédurales générales de la loi civile et sur les principes judiciaires y relatifs. Certaines questions, comme par exemple la régularité ou la nature continue de l'utilisation, devraient être traitées explicitement dans la loi nationale.

Zusammenfassung

Die Ungarische Gruppe möchte festlegen, dass der Einwilligungs-Regel existiert nur im Markengesetz. Die bezügliche Bestimmung ist ziemlich lakonisch und es gibt eigentlich keine Rechtsprechung. Dadurch bleiben mehrere Aspekte dieser Bestimmung unbeleuchtet sowohl im Markengesetz als auch in der Gerichtspraxis. Viele der Fragen die unbeantwortet sind, können durch die Anwendung der Bestimmungen von dem materiellen Zivilrecht und Verfahrensrecht gelöst werden, und daneben sollte man die zugehörigen Gerichtsprinzipien auch anwenden. Gewisse Fragen, wie die Regelmässigkeit und Kontinuität der Benutzung, sollen im Gesetz deutlich bestimmt werden.