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in the name of the Hungarian Group
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The Impact of Co-Ownership of Intellectual Property Rights on their Exploitation

Questions

1) The current substantive law

- 1) *Groups are invited to indicate whether, in their countries, the statute of co-ownership of IP rights is uniformly organised or if each IP right has its own regulation concerning co-ownership, particularly as far as their exploitation is concerned.*

Patent, trademark, utility model and design: The situation of co-ownership is regulated uniformly. The Utility Model Act of 1991 and the Design Act of 2001 simply refer to the provisions of the Patent Act of 1995; the Trademark Act of 1997 which regulates also the protection of geographical indications comprises provisions with respect to trademarks that are substantially identical with those of the Patent Act of 1995.

Copyright and geographical indication: Provisions of the Copyright Act of 1999 and those of the Trademark Act of 1997 with respect to geographical indications concerning co-ownership are different from the respective provisions of the Patent Act of 1995.

What options are left for co-owners to regulate their co-ownership relationship: are the statutory rules mandatory, or do they apply only in case of the absence of a contractual regulation of co-ownership between the parties?

The provisions of the Patent Act of 1995 on co-ownership of patent applications and patents are as follows:

Article 26

- 1) *Where there are two or more patentees for the same patent, each of the joint patentees may dispose of his own share. Where one of the joint patentees wishes to transfer his share, the other joint patentees shall enjoy a right of pre-emption with respect to third parties.*
- 2) *The invention may be exploited by any one of the joint patentees alone; however, he shall be obliged to pay adequate remuneration to the other joint patentees, in proportion to their shares.*
- 3) *An exploitation license may only be granted to a third party jointly by the joint patentees. A consent may be substituted by a court decision under the general provisions of civil law.*
- 4) *In the event of doubt, the shares of all joint patentees shall be deemed equal. If one of the joint patentees surrenders his patent protection, the rights of the other joint patentees shall extend to his share, in proportion to their own shares.*

- 5) Any one of the joint patentees may also act individually to maintain and protect the patent right. His legal acts - compromise, recognition and waiver of rights excepted - shall be binding on any other joint patentee who has failed to observe a time limit or to perform a required act, provided that such other joint patentee has not subsequently remedied his omission.
- 6) Where the acts of the joint patentees are divergent, a decision shall be taken having regard to all other relevant facts in the procedure.
- 7) Costs relating to the patent are to be borne by the joint patentees in proportion to their shares. If, despite being notified, any of the joint patentees does not pay the costs for which he is liable, the other joint patentee who has paid those costs may claim the assignment to him of the share belonging to the joint patentee being in default.
- 8) The provisions concerning joint patents shall apply *mutatis mutandis* to joint patent applications.

The Patent Act is silent on the issue whether the above provisions are mandatory or not. As a basic rule, most of the above statutory provisions seem to be mandatory. Taking into account analogue provisions on co-ownership of material goods according to the Civil Code, it can be assumed that, upon agreement, the co-owners can depart from the provisions of paragraph (1), first sentence, paragraph (2) and paragraph (7), first sentence.

- 2) *Groups are invited to explain who has the right to exploit an IP right which is co-owned by two or more persons: may each co-owner exploit the right freely and without any consent from the other co-owners or is this exploitation subject to conditions?*

Patent, trademark, utility model, design and geographical indication:

Each co-owner may exploit his share freely and without any consent from the other co-owners.

Copyright: The basic rule is that the exploitation should be allowed by all co-owners. If the parts of the commonly copyrighted work can be used independently (i.e. in the case of the so-called "connected works"), then every co-owner may exploit his part independently (i.e. without any consent from the other co-owners).

Even if this exploitation by only one co-owner is permitted by the national law, shall the co-owner who exploits a right pay any compensation to the other co-owners.

Patent, trademark, utility model and design: The exploiting party has to pay a compensation to the other co-owners in proportion to their shares.

Copyright: When independent exploitation is permitted (see above under 2a), no compensation has to be paid to the other co-owners.

Geographical indication: No compensation has to be paid.

Finally, in case compensation is required by the legal rule, how is the amount of compensation determined?

Patent, trademark, utility model and design: An "adequate" compensation has to be paid which should be in proportion with the ratio of ownership [Art. 26(2) of the Patent Act].

Copyright and geographical indication: No compensation has to be paid.

- 3) *The Groups are also invited to give an overview of their national Law in relation to the benefits which may result from the exploitation of an IP right which is co-owned.*

In particular, the Groups are invited to indicate if their national Law provides any kind of obligation for a co-owner who exploits personally its share of an IP right to pay any benefits to the other co-owner wherever the second exploits or no the same IP right.

Patent, trademark, utility model and design: The exploiting party has to pay an "adequate" compensation to all co-owners irrespective of the fact whether they also exploit or not the same IP right independently. If two or more co-owners exploit the same IP right independently, their mutual obligation to pay an "adequate" compensation should be matched against their mutual claim to receive such compensation.

Copyright: When independent exploitation is permitted, no compensation has to be paid to the other co-owners.

Geographical indication: No compensation has to be paid.

If there is such an obligation, how the amount of money that should be paid to another co-owner is determined?

There is no indication of the method of calculation of the amount of said compensation in the national regulations and there is no case law in this respect, either.

A reasonable starting point of said calculation could be the amount of the net profit made as a result of said exploitation and the share in the co-ownership of the other party. Nevertheless, it should also be taken into account that the party not exploiting has not risked any investment. In the case of mutual independent exploitation, the obligation to pay and the claim to receive an adequate compensation should be matched against each other as indicated above. Instead of starting from the net profit made, courts may also use, as a basis for the calculation of said compensation, a theoretic "licence fee" deemed to be adequate in the specific technical field concerned (which is a quite usual approach of the Hungarian courts when the value of an IP right is to be estimated in any case).

- 4) *The Groups are also invited to indicate if the co-owner may grant a licence to third parties without any authorisation from other co-owners, or if the granting of such a licence is subject to certain conditions?*

If such conditions exist, the Groups will have to specify their content.

Patent, trademark, utility model and design: Co-owners may only grant licences to third parties jointly. If any co-owner fails to give his consent for such licensing, the lack of consent may be substituted by a judgment of the court, in accordance with the general provisions of the Civil Law.

Copyright: Generally, co-owners may only grant licences to third parties jointly. When independent exploitation is permitted, licence can usually be granted without the consent of the co-owners.

Geographical indication: No licence can be granted.

- 5) *The question of the exploitation of an IP right interferes with the possibility of transferring such an IP right to third parties.*

The Groups should indicate the solution in their countries relating to the possibility of transferring a share of co-ownership of an IP right to third parties: may such a transfer (by assignment) be carried out freely without any conditions or must it be offered firstly to the other co-owners or is it specifically subject to the agreement of the other co-owners?

The Groups are invited to indicate the conditions to which such a transfer is subject.

Patent, trademark, utility model and design: Co-owners may freely dispose over their own share. When transferring the share of a co-owner, other co-owners are entitled to the right of pre-emption vis-à-vis third persons. Otherwise, the transfer (by assignment) of a

share of co-ownership is not subject to the agreement of other co-owners, the transfer shall be effectuated in accordance with the general rules of Civil Law. Regarding such transfer, there are neither mandatory nor discretionary further conditions specified in the relating national regulations.

Copyright and geographical indication: These IP rights can not be transferred.

- 6) *IP rights may also serve as a guarantee for the investment which is necessary for their exploitation.*

The question then arises of whether a share in co-ownership of an IP right can be used as such a guarantee and under what conditions.

Is it necessary to obtain agreement from all the co-owners in order to secure an IP right or can each co-owner freely secure his own share of an IP right without seeking the consent of the other co-owners?

The Groups are invited to describe their legal systems on this question.

Patent, trademark, utility model and design: The share in co-ownership may be used as a guarantee for investment (i.e. secured) without the consent of other co-owners.

Geographical indication: This IP right can not be secured because it can neither be transferred nor licensed.

Copyright: This IP right can not be secured because it can not be transferred according to the Copyright Act.

- 7) *The enforcement of IP rights plays an important role in their exploitation.*

Such enforcement is mainly achieved by means of legal proceedings that may be filed by the owner of an IP right in order to penalise the infringement of his right by third parties.

The question arises of whether such a legal action must be filed by all of the co-owners of an IP right or whether it can be filed by only one of the co-owners.

The Groups are therefore invited to specify the legal solutions and procedural exigences in their countries in relation to the possibility of one of the co-owners of an IP right filing an infringement action.

Patent, trademark, utility model, design, geographical indication and copyright: The Patent Act, the Trademark Act and the Copyright Act all equally enable any of the co-owners to proceed for the protection of the concerned IP right individually, i.e., an infringement lawsuit may be filed with the court by any of the co-owners without the prior consent of the others. The co-owner who initiates the lawsuit may only act in his own name. Although from certain legal consequences of an established infringement (seizure, prohibition etc.) the non-involved co-owners will also benefit, the plaintiff may claim compensation only for his own damages and not for that of the other, non-involved co-owners. If another co-owner wishes to support the plaintiff in the lawsuit later, he may intervene in the lawsuit according to the rules of the Code of Civil Procedure. However, if the other co-owner wishes to pose claims in its own name (e.g. claim compensation for damages), he has to file a separate court-claim (which most likely will be unified by the judge with the earlier court-claim of the other co-owner and adjudicated as one common court claim). The Patent Act and the Trademark Act further underline that in case each co-owner has entered the lawsuit, the legal acts of a co-owner - compromise, recognition and waiver of rights excepted - shall be binding on any other co-owner who has failed to observe a time limit or to perform a required act. Where the acts of the joint patentees are divergent, a decision shall be taken having regard to all other relevant facts of the procedure. These rules also apply for copyright litigation through the general rules of the Code of Civil Procedure.

- 8) *The exploitation of the IP rights depends also upon the existence of these rights and, more specifically, upon the capacity of their owner to ensure the continuity of the existence of these rights.*

Now, the decision on maintaining patents or trademarks by the payment of the renewal fee, may vary according to the legal system of organization of co-ownership.

The Groups are therefore invited to tell how the question of the decision making process of the maintaining or renunciation of the patents or trademarks is organized in their national law.

Patent, trademark, utility model, design and geographical indication:

This question may only concern industrial property rights as copyright is not subject to any registration in Hungary. The respective rules are formulated with the very same wording in both the Patent Act and the Trademark Act. In accordance with these rules, any of the co-owners may take care of paying the maintenance or renewal fee on his own. Generally, the costs relating to the IP right shall be borne by the co-owners in proportion to their shares. However, a case may occur, when one of the co-owners does not want to maintain the concerned IP right and does not pay the due proportion of the maintenance or renewal fee. In such a case, if - despite being notified - a co-owner does not pay the costs for which he is liable, the co-owner who has paid those costs may claim assignment to him of the share belonging to the co-owner having not met his obligations. Such a claim may be enforced by the co-owner who has paid the fees and wishes to acquire the share of the non-paying co-owner. According to the judicial practice, the co-owner who has paid the fees may ask for the assignment of share of the non-paying party from the court in a civil lawsuit and, upon affirmative decision, the Hungarian Patent Office records the assignment of said share of ownership. However, it is only the ownership share that may be claimed from the non-paying party and not the non-paid portion of the due fee.

- 9) *The Groups are also invited to describe their national rules of international private law in relation to conflicts of law relating to the co-ownership of the IP rights and conflicts of jurisdiction in order to enforce these rights.*

More specifically, the Groups are requested to indicate if their international private law rules accept that the statute of ownership of an IP right co-owned in different countries be regulated by one law.

In this case, what law is applicable for determining the statute of co-ownership?

What is the criteria for seeking the proper jurisdiction in cases of conflict between the co-owners concerning their rights?

a) Applicable Law

Patent, trademark, utility model, design and geographical indication: According to the Hungarian regulations, the inventor (and the owner - if different) of an IP right shall be protected in and according to the law of the country in which the subject IP right was registered. This provision unambiguously means that the applicable law for the statute of ownership is the Hungarian law in case of a registered Hungarian IP right.

Copyright: Regulations declare that copyright shall be adjudicated according to the law of the country in which protection is claimed (*lex loci protectionis*). This means that the applicable law depends on where the copyright owner poses a claim arising from his ownership.

b) Jurisdiction

Patent, trademark, utility model, design and geographical indication: For industrial property rights, the jurisdiction in case of conflict between the owners depends on where the particular industrial property right is registered.

Namely, any conflict related to the establishment, scope or termination of an industrial property right registered in Hungary shall belong to the exclusive jurisdiction of the Hungarian Courts, while in case of industrial property rights registered abroad, the jurisdiction of the Hungarian Courts is excluded.

Copyright: As for copyright, the jurisdiction depends on the residence of the defendant in accordance with the general rules.

- 10) *Finally, the Groups are invited to indicate what other specific solutions or problems relating to the question of the exploitation of IP rights co-owned by two or more persons are raised in their respective countries.*

Patent, trademark, utility model and design: The Hungarian statutory regulations concerning the co-ownership of these IP rights comprise two further rules worth to mention in addition to those discussed above, namely:

- a) in case of any doubt, the share of the co-owners of an IP right shall be deemed equal;
- b) if any of the co-owners of a registered IP right surrenders his respective right, the rights of the other co-owners automatically extend to his share in proportion to their own shares.

II) Proposals for future harmonisation

The Groups are also invited to formulate their suggestions in the framework of an eventual international harmonisation of national/regional intellectual property rights or, at least, an improvement or completion of the existing solutions.

- 1) *In particular, the Groups are requested to indicate if they consider that the principle of freedom of contracts should apply to allow the co-owners to determine the statute of the rights and the conditions for their exercising or if the rules governing co-ownership of IP rights should be mandatory.*

We think that the main rule should, by all means, be the application of the principle of freedom of contracts, nevertheless, it is also very useful if clear-cut regulations define the basic relations of the IP right co-owners in lack of a contractual agreement. These "background" regulations may also be very important for said co-owners in helping them drafting fair contracts regulating their specific mutual rights and obligations in any given complicated real life situation.

- 2) *The Groups are also requested to indicate if a statutory rule should give equal rights to all co-owners to individually exploit the IP rights or, without the authorisation of others co-owners, to grant the IP rights to third parties or whether, due to the exclusive character of an IP right, such exploitation can only take place with the agreement of all co-owners.*

Should this requirement of the agreement of all co-owners apply to all acts of exploitation and acts in defence of IP rights, or only to the acts of disposal of IP rights for the benefit of third parties, such as licensing or transferring to a third party?

We think that the present Hungarian regulations quoted above address correctly and quite practically these questions and we can propose these solutions also as starting points for harmonization. Namely, the statutory rules should give equal right to all co-owners for exploiting all industrial property rights without the consent of the other co-owners (in the case of copyright, however, the governing rule should be the necessity of consent of all co-owners for exploitation). Nevertheless, licensing should only be allowed upon the consent of all co-owners (this is necessary because the right of pre-emption can not be exercised in the case of licensing). We think that co-owners should be allowed to act in defence of their IP right independently and should also be able to dispose over their share independently. However, it is advantageous to avoid that counter-interested parties co-own or co-exploit an IP right,

which can be facilitated by the institution of pre-emption and the requirement of consent by all co-owners in the case of licensing.

- 3) *The Groups are also invited to give their preference as to the possibility of an enforcement action for infringement being initiated by all co-owners or only by some of them.*

We think that each co-owner (and also each licensor of all co-owners) should be allowed to launch an infringement action independently, and all other co-owners should be allowed to join the case any time during its course.

Summary

In Hungary, the legal consequences of co-ownership of IP rights are regulated in a quite adequate and practically acceptable manner. These legal solutions can also be proposed for consideration when it comes to harmonization. In Hungary, there are clear-cut statutory provisions which define the basic relations of the IP right co-owners in lack of a contractual agreement. Upon agreement, the parties may depart from some of the statutory provisions.

The statutory provisions give equal right to all co-owners for exploiting their share in all industrial property rights, except for copyright, without the consent of the other co-owners. The costs relating to an IP right have to be borne by the co-owners in proportion to their shares. If any of the co-owners fails to pay the due proportion of the costs, the co-owner who has paid those costs may claim the assignment to him of the share of the neglecting co-owner.

Résumé

En Hongrie les conséquences de la co-propriété des droits en propriété industrielle sont réglées d'une manière plutôt adéquate et acceptable du point de vue pratique. Ces solutions légales peuvent également être prises en considération, s'agissant de l'harmonisation. En Hongrie il existe des règlements bien définis régissant les rapports de base entre les co-proprétaires de droits en propriété industrielle faute d'un accord contractuel; cependant, en vertu d'un arrangement entre les parties, celles-ci peuvent s'écarter de quelques règlements statutaires.

Les règlements statutaires accordent des droits égaux à tous les co-proprétaires pour exploiter leur part dans tous les droits de propriété industrielle, excepté les droits d'auteur, sans le consentement des autres co-proprétaires. Les coûts relatifs à un droit de propriété industrielle doivent être supportés par les co-proprétaires proportionnellement aux parts que ceux-ci détiennent. Si l'un des co-proprétaires manque de payer les frais dans la proportion qui lui revient, celui des co-proprétaires qui a payé ces frais peut revendiquer le transfert à son bénéfice des parts du co-proprétaire négligent.

Zusammenfassung

In Ungarn sind die rechtlichen Konsequenzen des gemeinsamen Eigentums an gewerblichen Schutzrechten in einer ziemlich befriedigenden und praktisch annehmbaren Weise geregelt. Diese rechtlichen Lösungen können auch für Überlegungen betreffend die Harmonisierung empfohlen werden. In Ungarn bestehen gut definierte rechtliche Regelungen, die, wenn keine vertraglichen Vereinbarungen vorliegen, die Grundverhältnisse der Mitinhaber gewerblicher Schutzrechte definieren, doch können die Partner, wenn darüber Einigkeit besteht, von einigen der Regelungen abweichen.

Die rechtlichen Regelungen geben allen Miteigentümern gleiche Rechte zur Nutzung ihres Anteils an dem gewerblichen Schutzrecht (Ausnahme: Urheberrecht), ohne dass die Zustimmung der anderen Miteigentümer eingeholt werden müsste. Falls einer der Mitinhaber die Zahlung des entsprechenden Teils der fälligen Kosten versäumt, kann der Mitinhaber, der die Kosten getragen hat, beantragen, dass der Anteil des seine Pflicht versäumenden Mitinhabers auf ihn übertragen wird.