Hungary
Hongrie
Ungarn

Report Q205

in the name of the Hungarian Group
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Exhaustion of IPRs in cases of recycling and repair of goods

Questions

I) Analysis of the current statutory and case laws

1) Exhaustion

In your country, is exhaustion of IPRs provided either in statutory law or under case law with respect to patents, designs and trademarks? What legal provisions are applicable to exhaustion? What are the conditions under which an exhaustion of IPRs occurs? What are the legal consequences with regard to infringement and the enforcement of IPRs?

In Hungary, exhaustion of IPRs is provided in statutory law as follows.

Article 20 of the Act No. XXXIII of 1995 on the Protection of Inventions by Patents (hereinafter: Patent Act) provides that

"The exclusive rights of exploitation conferred by the patent protection shall not extend to further acts relating to a product put on the market in the European Economic Area by the holder of the patent or with his express consent, unless the holder of the patent has a legitimate interest to oppose further marketing of the product."

Article 17(2) of the Act No. XXXVIII of 1991 on the Protection of Utility Models provides that for the exhaustion of utility model rights the provisions of the exhaustion of patent rights shall be applied mutatis mutandis.

Article 18 of the Act No. LVIII of 2001 on the Protection of Designs (hereinafter: Design Act) provides that

"The exclusive rights of exploitation conferred by the design protection shall not extend to further acts relating to a product according to the design, when the product has been put on the market in the European Economic Area by the holder of the design or with his express consent."

Article 16 of the Act No. XI of 1997 on the Protection of Trademarks and Geographical Indications (hereinafter: Trademark Act) provides that

"1) The 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 with his express consent.

2) The provision according to paragraph (1) shall not apply if the proprietor has a legitimate interest to oppose further marketing of the goods, in particular where the substance or condition of the goods has been changed or impaired."

Based on the above, the conditions for the exhaustion of an IPR are the followings. First, the protected product or the goods bearing the trademark must be put on the market in the EEA

by the right owner or with his express consent. Second, there shall be no legitimate interest on the part of the right owner to oppose further marketing of the products or goods. The second condition does not apply to designs.

The legal consequences of exhaustion of IPRs with regard to infringement and enforcement of IPRs are that in case of exhaustion of IPRs, the infringement of the IPR with respect to further marketing of the particular products or goods cannot be established, therefore, sanctions of IPR infringement cannot be applied. In other words, an IPR cannot be enforced against acts where all the requirements of exhaustion of the IPR are met.

2) *International or national exhaustion*

Does the law in your country apply international exhaustion for patents, designs or trademarks? If yes, are there any additional conditions for international exhaustion compared to regional or national exhaustion, such as a lack of marking on products that they are designated only for sale in a specific region or country or the non-existence of any contractual restrictions on dealers not to export products out of a certain region? What is the effect of breach of contractual restrictions by a purchaser?

Hungarian law does not apply international exhaustion for patents, utility models, designs and trademarks.

Moreover, the application of international exhaustion for trademarks would be contrary to the First Council Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks, as amended by the Agreement of the European Economic Area of 2 May 1992 (hereinafter: Trademark Directive), in particular to Article 7(1) thereof, which contains provisions on exhaustion. The European Court of Justice (hereinafter: ECJ) set forth in the Silhouette judgement (C-355/96) that Member States are not permitted to provide international exhaustion which would be contrary to Article 7(1) of the Trademark Directive, which provide for regional exhaustion within the territory of the EEA.

The ECJ stated that

"a situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services." (para. 27)

The ECJ answered question 1 in its preliminary ruling as follows.

„National rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with its consent are contrary to Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992."

If your law does not apply international exhaustion, is there regional exhaustion or is exhaustion limited to the territory of your country?

In Hungary, there is regional exhaustion for the territory of the EEA. This follows from Hungary's membership in the European Union.

In case your country applies regional or national exhaustion, who has the burden of proof regarding the origin of the products and other prerequisites for exhaustion and to what extent?

The preliminary ruling of the European Court of Justice of 8 April 2003, which shall be followed also by the Hungarian courts, in the case C-244/00 Van Doren / Lifestyle (Stüssy) provides a guidance on the issue of burden of proof in relation to exhaustion of IPRs as follows:

„A rule of evidence according to which exhaustion of the trade mark right constitutes a plea in defence for a third party against whom the trade mark proprietor brings an action, so that the existence of the conditions for such exhaustion must, as a rule, be proved by the third party who relies on it, is consistent with Community law and, in particular, with Articles 5 and 7 of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992. However, the requirements deriving from the protection of the free movement of goods enshrined, inter alia, in Articles 28 EC and 30 EC may mean that this rule of evidence needs to be qualified. Accordingly, where a third party succeeds in establishing that there is a real risk of partitioning of national markets if he himself bears that burden of proof, particularly where the trade mark proprietor markets his products in the European Economic Area using an exclusive distribution system, it is for the proprietor of the trade mark to establish that the products were initially placed on the market outside the European Economic Area by him or with his consent. If such evidence is adduced, it is for the third party to prove the consent of the trade mark proprietor to subsequent marketing of the products in the European Economic Area."

In accordance with this guidance of the ECJ, the Metropolitan Court of Budapest, the court having exclusive competence at the first instance in all trademark infringement proceedings in Hungary, in its preliminary injunction decision No. 1.P.633.299/2005/7 (Bacardi case) established that the defendant did not prove that the products were put on the market in the EEA with the consent of the trademark owner, although the burden of proof rested on the defendant.

3) Implied license

Does the theory of implied license have any place in the laws of your country? If so, what differences should be noted between the two concepts of exhaustion and implied license?

Since the Hungarian IP laws contain express provisions on the exhaustion of rights, the concept of implied license is not applicable within the scope of exhaustion. The provisions on exhaustion of rights as referred to under 1) are of mandatory nature.

Nevertheless, may we mention that according to the judgment of the European Court of Justice in the Davidoff / Levi Strauss case (Joined cases C-414-416/99), the ECJ established the conditions of the trademark owner's implied consent for the purposes of exhaustion of trademark rights.

The ECJ stated that

1) On a proper construction of Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992, the consent of a trade mark proprietor to the marketing within the European Economic Area of products bearing that mark which have previously been placed on the market outside the European Economic Area by that proprietor or with his consent may be implied, where it follows from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the European Economic Area which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his right to oppose placing of the goods on the market within the European Economic Area.

2) Implied consent cannot be inferred:

   – from the fact that the proprietor of the trade mark has not communicated to all subsequent purchasers of the goods placed on the market outside the European Economic Area his opposition to marketing within the European Economic Area;

- from the fact that the goods carry no warning of a prohibition of their being placed on the market within the European Economic Area;
- from the fact that the trade mark proprietor has transferred the ownership of the products bearing the trade mark without imposing any contractual reservations and that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the European Economic Area.

4) Repair of products protected by patents or designs

Under what conditions is a repair of patented or design-protected products permitted under your national law? What factors should be considered and weighed? Does your law provide for a specific definition of the term "repair" in this context?

In Hungary, there was a quite early paper which dealt with the question of repair of products protected by patents [Hugó Kalmár: Szabadalmazott tárgyak reparaturája ("Repairs of patented objects"). Iparjogi Szemle, 1906, No. 2, pp. 47 to 50]. Although at that time there was no provision on exhaustion of rights in the Patent Act of 1895, in this paper it was concluded that due to the inherent relationship between different forms of exploitation (manufacture, circulation, use), the repair of a legally obtained patented object did not constitute infringement of the patent.

In the present Patent Act there are no specific and explicit provisions in relation to the repair of patent protected products. Pursuant to Article 19(2)(a) of the Patent Act, the exclusive rights to exploitation relate to the following acts: producing, using, putting on the market or offering for sale of the patented product, and stocking or importing this product for such purposes.

The judgement of the Supreme Court of the Republic of Hungary (No. Pfv.IV.20.473/2007/5) relating to the exploitation of a veterinary product established that Article 19(2) of the Patent Act provides an exhaustive list of the acts of exploitation that may qualify as patent infringement in lack of consent from the patent owner.

The list provided in Article 19(2) of the Patent Act does not contain repair or recycling, therefore, we are of the opinion that repair and recycling do not qualify as patent infringement.

Article 17(2) of the Design Act provides specific and explicit provisions on repair of design protected products as follows.

"The owner of a design shall not prohibit third parties from exploiting – in accordance with the requirements of fair trade - the design of a component part for the purpose of repair aiming to restore the original appearance of a complex product, provided that this design necessarily fits to the original appearance of the complex product."

We are of the opinion that the repair of patent or design protected products is in close connection with the exhaustion of such rights. Accordingly, IPR rights cannot constitute an obstacle to the exercise of repair if the product has been rightfully acquired from the right owner or with his consent, and all of the requirements of exhaustion of rights are met. However, we are not aware of any case law on this specific issue.

We note that the repair issue is also related to contributory infringement of IPRs which, however, is dealt within the framework of Question Q204.

5) Recycling of products protected by patents or designs

Under what conditions is a recycling of patented or design-protected products permitted under your national law? What factors should be considered and weighed? Does your law provide for a specific definition of the term "recycling" in this context?

Hungarian intellectual property law does not provide for a specific definition of the term "recycling". As stated above, the exhaustive list of the types of exploitation in the Patent Act does not contain "recycling".

Furthermore, we are not aware of any case law in Hungary in relation to the recycling of products protected by patents or designs.

6) Products bearing trademarks

Concerning the repair or recycling of products such as reuse of articles with a protected trademark (see the examples hereabove), has your national law or practice established specific principles? Are there any special issues or case law that govern the exhaustion of trademark rights in your country in case of repair or recycling?

First of all we refer to the Working Guidelines according to which the concept of reuse also includes repackaging. The relevance of this fact is that there is very limited European case law and no Hungarian national case law dealing explicitly with recycling or repair of products bearing a trademark. However, there is a quite extensive case law on repackaging of products bearing a trademark.

There is actually an extensive guidance from the European Court of Justice in relation to the repackaging of pharmaceutical products. The conditions for a rightful repackaging have been summarized by the ECJ in its preliminary ruling in the Boehringer case (C-348/04) as follows.

"Article 7(2) of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992, is to be interpreted as meaning that the trade mark owner may legitimately oppose further commercialisation of a pharmaceutical product imported from another Member State in its original internal and external packaging with an additional external label applied by the importer, unless:

– it is established that reliance on trade mark rights by the proprietor in order to oppose the marketing of the overstickered product under that trade mark would contribute to the artificial partitioning of the markets between Member States;

– it is shown that the new label cannot affect the original condition of the product inside the packaging;

– the packaging clearly states who overstickered the product and the name of the manufacturer;

– the presentation of the overstickered product is not such as to be liable to damage the reputation of the trade mark and of its proprietor; thus, the label must not be defective, of poor quality, or untidy; and

– the importer gives notice to the trade mark proprietor before the overstickered product is put on sale, and, on demand, supplies him with a specimen of that product."

We note that there are no specific provisions or case law that govern the exhaustion of trademark rights in Hungary in case of repair and recycling. Nevertheless, we consider, among others, that the repaired or recycled nature of the product shall be indicated to qualify as rightful repackaging in case of repaired and recycled products.

7) IPR owners' intention and contractual restrictions

a) In determining whether recycling or repair of a patented product is permissible or not, does the express intention of the IPR owner play any role? For example, is it considered

meaningful for the purpose of preventing the exhaustion of patent rights to have a marking stating that the product is to be used only once and disposed or returned after one-time use?

We consider that the provisions on exhaustion of rights are of mandatory nature, therefore, they are independent of the intention of the IPR owner.

b) *What would be conditions for such kind of intentions to be considered?*

c) *How decisive are other contractual restrictions in determining whether repair or recycling is permissible? For example, if a license agreement restricts the territory where a licensee can sell or ship products, a patentee may stop sale or shipment of those products by third parties outside the designated territory based on his patents. What would be the conditions for such restrictions to be valid?*

d) *Are there any other objective criteria that play a role besides or instead of factors such as the patentee's intention or contractual restrictions?*

e) *How does the situation and legal assessment differ in the case of designs or trademarks?*

8) *Antitrust considerations*

According to your national law, do antitrust considerations play any role in allowing third parties to recycle or repair products which are patented or protected by designs or which bear trademarks?

At the onset we wish to set forth that antitrust considerations play a role in allowing third parties to recycle or repair patent, design or trademark protected products only in case the intellectual property laws would not permit such repair or recycle but antitrust law would. This would possibly be an exceptional case on the basis of a possible abuse of a dominant position in relation to repair or recycle that constitutes an essential facility.

In this respect the Hungarian Group wishes to refer also to the AIPPI resolution in relation to Q187, which provided that

"The AIPPI reconfirms its view that competition law (the rules which are intended to safeguard free and fair competition) and intellectual property (IP) law are not in conflict but, on the contrary, both contribute to economic progress and serve the public." (para. 1 of the resolution)

"The rules of competition law may apply to the exercise of IP rights.

If in particular cases, the exercise of IP rights contravenes competition law, then the law should allow for the necessary remedies.

However, the application of such law must not affect the existence of the IP right and it should be accepted as a governing principle that IP rights convey exclusive rights." (para. 4 of the resolution).

9) *Other factors to be considered*

In the opinion of your Group, what factors, besides those mentioned in the Discussion section above, should be considered in order to reach a good policy balance between appropriate IP protection and public interest?

10) *Interface with copyrights or unfair competition*

While the present Question is limited to patents, designs, and trademarks as noted in the Introduction above, does your Group have any comments with respect to the relationship

between patent or design protection and copyrights or between trademarks and unfair competition relative to exhaustion and the repair and recycling of goods?

The Hungarian Group is of the opinion that repair and recycling activities shall be exercised only if they are also in accordance with the requirements of the law on unfair competition.

11) Additional issues

In the opinion of your Group, what would be further existing problems associated with recycling and repair of IPR-protected products which have not been touched by these Working Guidelines?

II) Proposals for uniform rules

1) What should be the conditions under which patent rights, design rights and trademark rights are exhausted in cases of repair and recycling of goods?

According to the opinion of the Hungarian Group, there are two conflicting interests involved, i.e. on the one hand the interest of the IPR owners to maintain their exclusive rights, and on the other the interests of the rightful owner of the product protected by the IPR to freely dispose of the product, in this respect to repair or to recycle the product.

In the opinion of the Hungarian Group the answer for striking an appropriate balance between the two underlying interests is to be found on the basis of the exhaustion of IPRs. Due to the exhaustion of IPRs, the use of the product by the owner in general as well as specifically for the purpose of repair or recycling cannot be prevented by the IPR, unless the repair or recycling activity by the owner of the product would in itself qualify as an infringement of the patent, i.e. in case the patent in itself covers repair or recycling.

The Hungarian Group notes that repair and recycling should only be carried out in accordance with the requirements of honest business practices. The requirement of honest practices is explicitly provided for by the EU trademark harmonisation directive in relation to the limitations of the effects of the trademark [Article 6(1)(c) of the First Council Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks].

Thus, the Hungarian Group considers that it shall be indicated that the product is a repaired or recycled product. Furthermore, the repaired or recycled product shall not convey the impression to the consumers that it is an original product that was put on the market by the IPR owner, i.e. it shall not mislead the consumers. We consider that in case of trademark protection the removal or permanent covering of the trademark would be justified in case such action would be necessary to exclude the risk of misleading the consumers.

2) Should the repair and the recycling of goods be allowed under the concept of an implied license?

The Hungarian Group does not suggest the application of the concept of implied license. We consider that for the sake of legal certainty the conditions of repair and recycling should be based on objective and transparent criteria as far as possible.

3) Where and how should a line be drawn between permissible recycling, repair and reuse of IP-protected products against prohibited reconstruction or infringement of patents, designs and trademarks?

With respect to the "where", i.e. the conditions of permissible repair and recycling, the Hungarian Group refers to the answers given in point II.1 above.

With respect to the "how", we provide the following answer.

The necessity for the establishment of the conditions of repair and recycling are similar to the issue of repackaging and parallel import of pharmaceutical products. Concerning the latter issue the European Court of Justice has developed a comprehensive and detailed list of conditions throughout several decades and through several individual cases. In respect of parallel import of pharmaceutical products the most recent judgment of the ECJ in the Boehringer case (C-348/04) summarizes the relevant conditions and requirements. In the opinion of the Hungarian Group, such gradual development of the case law does not adequately serve the requirements of legal certainty and transparency.

On the basis of the above, the Hungarian Group considers that the conditions of repair and recycling shall be provided on the basis of a harmonized legislation.

4) *What effect should the intent of IPR holders and contractual restrictions have on the exhaustion of IPRs with respect to recycling and repair of protected goods?*

The Hungarian Group considers that the intent of IPR holders and contractual restrictions shall not be relevant as to their effect on the exhaustion of IPRs with respect to recycling and repair of protected goods. We consider that for the sake of legal certainty the conditions of repair and recycling should be based on objective, transparent and mandatory criteria as far as possible.

5) *Should antitrust issues be considered specifically in cases of repair or recycling of goods? If so, to what extent and under which conditions?*

The Hungarian Group is of the opinion that antitrust considerations, in particular potential abuse of a dominant position, could theoretically apply only in case a conduct would be prohibited by IP laws. As set forth in point II.1 above, we consider that repair and recycling are not prohibited by IP laws, unless such conduct in itself constitutes an infringement of a patent, i.e. if the patent relates to repair or recycling. Even in the latter case, the Hungarian Group considers that it is unlikely that such patent would practically qualify as an essential facility, which would justify the application of the rules on abuse of a dominant position.

Furthermore, the Hungarian Group notes that compulsory license in relation to trademarks is excluded by the TRIPS Agreement.

6) *The Groups are invited to suggest any further issues that should be subject of future harmonization concerning recycling, repair and reuse of IP-protected products.*

7) *Based on answers to items 1 to 6 above, the Groups are also invited to provide their opinions about how future harmonization should be achieved.*

As set forth in point II.3 above, the Hungarian Group supports the adoption of harmonized rules through legislation.

Summary

The exhaustive list in the Hungarian Patent Act in relation to unlawful acts of exploitation does not contain repair or recycling. The Hungarian Design Act provides for specific exemption in case of repair. Hungarian IP laws do not provide for a concept of recycling. There are no specific provisions or case law that govern the exhaustion of trademark rights in Hungary in case of repair and recycling, however, the issue of repackaging is closely connected thereto.

According to the opinion of the Hungarian Group, due to the exhaustion of IPRs, the use of the product by the owner in general as well as specifically for the purpose of repair or recycling cannot be prevented by the IPR, unless the repair or recycling activity by the owner of the product would in

itself qualify as an infringement of the patent. The Hungarian Group notes that repair and recycling should only be carried out in accordance with the requirements of honest business practices, that it shall be indicated that the product is a repaired or recycled one, and that the repaired or recycled product shall not mislead the consumers. The Hungarian Group does not suggest the application of the concept of implied license. The conditions of repair and recycling should be based on objective, transparent and mandatory criteria as far as possible and shall be provided on the basis of a harmonized legislation.

Résumé

La liste exhaustive concernant l'exploitation illicite des brevets dans la loi hongroise sur les brevets ne mentionne ni la réparation ni le recyclage. La loi hongroise sur les dessins prévoit une exemption spécifique dans le cas de réparation. Le droit hongrois de propriété intellectuelle ne prévoit pas de concept de recyclage. Il n'existe pas de disposition ni de jurisprudence spécifique pour régler les droits de l'extinction des marques en Hongrie dans le cas de réparation ou recyclage, néanmoins, on peut référer au problème du repackaging.

Selon l'opinion du Groupe Hongrois concernant l'extinction des droits de propriété intellectuelle, l'usage du produit par le propriétaire en général et aussi dans le but de le réparer ou recycler ne peut pas être empêché par le droit de propriété intellectuelle, sinon l'activité de réparation ou de recyclage par le propriétaire constituerait elle-même une contrefaçon du brevet. Le Groupe Hongrois note que la réparation et le recyclage doivent être exercés uniquement selon les pratiques commerciales honnêtes, et qu'il est obligatoire d'indiquer que le produit est réparé ou recyclé; en outre le produit réparé ou recyclé ne peut pas tromper le consommateur. Le Groupe Hongrois ne propose pas l'application du concept de la licence impliquée. Les conditions de la réparation ou du recyclage doivent être basées sur des critères objectifs, l transparents et impératifs, autant que c'est possible, et être en accord avec une législation harmonisée.

Zusammenfassung

Die ausführliche Aufzählung der patentverletzenden Handlungen im ungarischen Patentgesetz beinhaltet weder die Reparierung noch die Wiederverwertung. Das ungarische Musterschutzgesetz bietet eine spezielle Ausnahme für Reparierung. In den ungarischen Gesetzen bezüglich des gewerblichen Rechtsschutzes gibt es kein Konzept für die Wiederverwertung. Auch gibt es in Ungarn keine Regeln oder Praxis für den Fall der Erschöpfung der Markenrechte bezüglich Reparierung und Wiederverwertung. Die Frage der Wiederverpackung steht aber mit diesen Handlungen im engen Zusammenhang.

Der Ansicht der ungarischen Landesgruppe nach, kann wegen der Erschöpfung der gewerblichen Schutzrechte der Nutzung der Produkte von dem Eigentümer im allgemeinen und auch zum Zwecke ihrer Reparierung oder Wiederverwertung durch gewerbliche Schutzrechte nicht vorgebeugt werden, sei es, dass die Reparierung oder Wiederverwertung durch den Eigentümer des Produktes selbst eine patentverletzende Handlung darstellt. Die ungarische Landesgruppe möchte bemerken, dass die Reparierung oder Wiederverwertung nur mit Hinsicht auf die guten Sitten und das redliche Verhalten im Geschäftsleben erfolgen darf. Es ist anzugeben, dass das Produkt ein repariertes oder wiederverwertetes Produkt ist, und solche Produkte dürfen die Verbraucher nicht täuschen. Die ungarische Landesgruppe schlägt die Anwendung des Konzepts der stillschweigenden Lizenzvereinbarung nicht vor. Die Bedingungen der Reparierung und Wiederverwertung sollen möglicherweise auf objektiven, transparenten und bindenden Vorschriften beruhen, und durch harmonisierte Gesetzgebung gesichert werden.