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Q245

Taking unfair advantage of trademarks: parasitism and free riding

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I. Current law and practice

1) Do the laws of your jurisdiction provide for protection against:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines (see paragraphs 26) and 27) above); and/or

yes

Please comment:

The Hungarian Act XI of 1997 on the Protection of Trademarks and Geographical Indications (hereinafter referred to as Hungarian Trademark Act) provides for protection against the taking of unfair advantage of trademarks as defined in paragraphs 27 and 28 of the Working Guidelines. Sanctions of this Act are rejection of a trademark application, cancellation of a registered trademark, and consequences of a trademark infringement.

As a relative ground for refusal, Article 4(1)(c) of the Hungarian Trademark Act, effective as of 1 May 2007, stipulates that a sign may not be granted trademark protection with respect to dissimilar goods or services if the sign with a later date of priority is identical with or similar to an earlier registered trademark having a reputation in the country where the use without due cause of the later sign would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trademark.

According to Article 12 of the Hungarian Trademark Act *the protection of a registered trademark shall confer on its proprietor an exclusive right to use the trademark. On the basis of the exclusive right of use, the proprietor shall be entitled to prevent any person not having his consent from using in the course of trade any sign which is identical with or similar to the trademark in relation to goods and services which are not identical with or not similar to those for which the trademark is*

registered, provided that the trademark has a reputation in the country and the use of that sign without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the trademark (Article 12(2)(c) of the Hungarian Trademark Act).

b) use that you consider similar but outside the scope of the definition in these Working Guidelines?

no

Please comment:

The Hungarian law does not contain any provision against use outside the scope of the "free riding" or "parasitism" as defined in the Working Guidelines or in addition to the protection against the taking of unfair advantage of trademarks.

For the questions below, if b. applies either separately or in addition to a., please make that clear in any relevant answer.

2) What is this protection called, and is this a definition developed in case law or found in a statutory provision? If such protection is characterised as a form of protection against dilution, please state this and provide any explanation as to the basis for such characterisation.

As stated above there is a statutory provision in the Hungarian Trademark Act. In the respective provisions there is no legal definition for the terms "taking of unfair advantage" and "trademark having a reputation". These terms have been construed in the case law in which preliminary judgments of the Court of Justice of the European Union have been taken into account.

3) If such protection is available, what is the basis for the protection, e.g. trademark law (distinguishing between unregistered and registered trademarks where relevant), unfair competition, consumer protection law, common law? If multiple causes of action are available, is there an interaction between them, and if so, what?

The protection at issue is mainly based on trademark law (see our response to 1.a.). However, such protection relates only to registered trademarks with reputation. The Hungarian Trademark Act does not provide an extended protection to non-registered trademarks with reputation. Non-registered trademarks may be protected on the basis of the Act LVII of 1996 on the Prohibition of Unfair Market Practices and of Restriction of Competition (hereinafter referred to as the Competition Act) and the Act XLVII of 2008 on the Prohibition of Unfair Commercial Practices against Consumers (hereinafter referred to as the Consumer Protection Act).

The Competition Act which includes a general prohibition of unfair competition (general clause) and among others the prohibition of slavish imitation between competitors was amended by Act CCI of 2013, effective as of 1 July 2014.

In case the protection against the taking of unfair advantage of trademarks is considered in the narrow sense according to paragraphs 3 and 27 of the Working Guidelines where advantage is taken of the reputation of a third party's trademark the general clause of the Competition Act could be applied because the user of a later mark with respect to dissimilar goods or services is not a competitor of the proprietor of the earlier trademark with reputation.

According to Article 2 of the Competition Act *it is prohibited to conduct economic activities in an unfair manner, in particular, in a manner violating or jeopardizing lawful interests of customers, buyers and users, as well as competitors, or in a way which is contrary to the requirement of business fairness.* According to the case law the general clause of the Competition Act is of subsidiary character,

therefore, it is applied quite rarely.

Under a wider scope of the definition for the protection in question the protection may be based on the provision of the prohibition of slavish imitation of the Competition Act and on provisions of the Consumer Protection Act.

According to Article 6 of the Competition Act, *it is prohibited without the consent of the competitor, to produce, to place on the market or to advertise transferable, movable things (hereinafter: goods) or services with such a distinctive outside, packaging, designation, including the designation of origin, or denomination, furthermore, to use such a name, marking or other designation for which the competitor or its goods or services are used to be recognized.*

On the basis of the Consumer Protection Act unfair business-to-consumer commercial practices shall be prohibited. A commercial practice shall be unfair if

a) it fails to meet the standard of special skill and care, which a person carrying out that commercial practice may reasonably be expected to exercise, commensurate with the fundamental principle of good faith and fairness ; and

b) it appreciably reduces or is likely to appreciably reduce the possibility for the consumer to whom it is directed, whom it reaches or to whom it is addressed to make an informed decision with regard to the goods, based on the necessary information, and thereby causes the consumer or is likely to cause him to take a transactional decision that he would not have taken otherwise (“distortion of the behaviour of consumers”).

In particular, commercial practices shall be unfair, if they are misleading or aggressive. A commercial practice shall be regarded as misleading if it contains false information or represents factually correct information in such a way, including overall presentation, that makes it deceive or be likely to deceive the consumer in relation to one or more of the following elements, and thereby causes the consumer or is likely to cause him to take a transactional decision that he would not have taken otherwise. Such elements are e.g. the existence or nature of the goods, taking into account the statutory provisions relating to the names of products; the identity, attributes and rights of the undertaking or his representative, such as his nature, his legal status, affiliation and connection, assets, ownership of intellectual and commercial property rights, approval, qualifications or his awards and distinctions.

In Hungary multiple causes of action are available for protection against taking unfair advantage of a trademark or a name, designation by trademark law and unfair competition law provided that the same court has jurisdiction. The civil remedies applicable in these actions are quite similar (e.g. the establishment of the trademark infringement/ violation, termination of the infringement/ violation and the prohibition of continued infringement/ violation by the infringer, damages subject to the provisions of the civil law).

4) What are the elements of any available cause of action, e.g. the requirement for the trademark to be registered, reputation in the trademark, establishment of a link or association with the trademark, bad faith, change in the economic behaviour of consumers, actual advantage, potential future advantage? How are they proven?

The following elements are needed for an action on the basis of Hungarian Trademark Act:

Registered trademark

The valid registration of the earlier trademark shall be proven by filing an official trademark excerpt issued by the Hungarian Intellectual Property Office (HIPO), the OHIM or the WIPO.

Reputation of the earlier trademark

Generally, the reputation shall be proven by filing evidences, e.g. catalogues, invoices, market survey, marketing activities. The reputation of the earlier trademark shall exist before the priority date or the use of the later sign.

The use of the later sign would be without due cause

It is generally presumed that the use or potential use of the later sign is without due cause unless the proprietor of the later sign proves that there has been a due cause for the use of the later sign.

The due cause could be any use in accordance with the Article 15 of the Hungarian Trademark Act (e.g. the use of own name or address provided the proprietor of the later sign uses his/her name in accordance with honest practices in industrial or commercial matters), prior undisturbed use in good faith or a brand extension thereof. The Hungarian Supreme Court established in the MERCI/Merci case (Pfv.IV.21.491/2011/3) that "a use can be considered without due cause if the use has no any antecedent." In this case the applicant for MERCI in relation to goods in Class 16 had used continuously the mark for a long period before the starting of the opposition procedure without any problem and the taking of unfair advantage of the earlier mark with reputation "Merci" in Class 30 could not be proven, therefore, the trademark for MERCI was registered.

Establishment of a link, change in the economic behaviour of consumers

Our case law is bound by the preliminary decisions of the Court of Justice of the European Union (CJEU, formerly ECJ), therefore, the judgement of the ECJ are followed regarding elements concerning establishment of a link and change in the economic behaviour of consumers. A Community trademark may enjoy the enhanced protection of a reputed mark if the relevant consumers establish a link between the applied sign and the Community trademark (case C-408/01 Adidas/Fitnessword). The existence of such a link must be assessed globally, taking into account all factors (e.g. the strength of the earlier mark's reputation) relevant to the circumstances of the case (C-252/07 intel/INTELMARK case, paragraphs 41 to 42). The existence of reputation and detriment is assessed from the viewpoint of the public concerned by the prior CTM, whilst unfair advantage from the viewpoint of the public concerned by the national application (*INTEL case*). The CTM proprietor is not required to demonstrate actual and present injury to its mark. He must, however, prove that there is a serious risk that such an injury will occur in the future (*INTEL case*).

In Hungary the proprietor of the earlier trademark is not required, for that purpose, to demonstrate actual and present injury to its trademark for the purposes of Article 4(1)(c) of the Hungarian Trademark Act. The proprietor of the earlier mark must prove that there is a serious risk that such an injury will occur in the future. This serious risk could be proven e.g. if the goods/services are competitive with each other and the respective public targeted by the marks at issue completely overlap.

5) Further to question 4):

a) what degree of reputation, if any, in the trademark is required?

The relevant sector of the public must be considered and the existence of the reputation is determined on a case-by-case basis; there is not any strictly defined threshold to be met.

b) who bears the burden of proof regarding the requirements?

The general rule according to which 'he who asserts must prove' (in Latin "*ei qui affirmat incumbit probatio*") applies therefore the burden of proof generally lies with the party who states any facts in the proceedings. Usually the claimant shall prove the requirements except the "without due cause"

prerequisite.

According to the Hungarian Code of Civil Procedure the court may recognize as true any facts which are considered common knowledge. The same applies to information of which the court has knowledge officially. The court may take these facts into consideration regardless of whether they are mentioned by the parties or not, however, the parties must be notified of this during the hearing.

On the basis of the above-mentioned rule the Hungarian Intellectual Property Office and the Hungarian Court, respectively, recognised the reputation of the trademarks SEIKO and PENNY MARKET as facts which are considered common knowledge.

c) must the use at issue cause confusion?

no

Please comment:

No confusion is required by an action based on Article 4(1)(c) of the Hungarian Trademark Act.

The use of the later sign does not have to cause confusion but a likelihood of association is needed for the establishment of taking unfair advantage of the distinctive character or the repute of the earlier trademark. The claimant must establish that a "link" between the marks exists in the minds of the relevant public and the Hungarian courts follow the ECJ judgement in the Case C-252/07 intel/INTELMARK and require global analysis of the factors listed in this judgement.

In an action based on unfair competition actual confusion is required.

d) can the protection be invoked in case of both similar and dissimilar goods/services?

no

Please comment:

The protection can be invoked only in case of dissimilar goods/services. In case the goods/services are similar, the Hungarian competent court declared that it is not possible to apply the relative ground of refusal determined in the Article 4(1)(c) (e.g. Supreme Court Pfv. IV.20.105/2013/4 "Party Cola Light/Bottle"). The Hungarian court decisions are in line with Article 4(1)(c) the Hungarian Trademark Act and Article 4(4)(a) of the Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 (codified version). However, in the opinion of the Hungarian Group these decisions do not correspond to the *contra legem* interpretation of the ECJ in the cases C-292/00 Davidoff/Durfee and C-408/01 Adidas/Fitnessword.

e) are there any other factors, even if not a separate requirement, that may be relevant, and if so, what are they?

In assessing the requirement of "taking unfair advantage" the distance or relation between the goods/services of the earlier trademark with reputation and those of the later sign may be relevant. In the case when the goods/services are totally unrelated the economic behaviour of the public relevant to the earlier trademark may not be influenced. If the goods, although different, are e.g. within the notion "luxury goods", an unfair advantage is very probable.

6) Are there any defences against and/or limitations to the protection?

yes

If so, what are they, and what are the elements of such defences/limitations?:

Please see our response to question 4) on use with due cause. There may be situations where the use complained of is justified as a fair comparative advertising or parody which could be a potential defence to an allegation of free riding.

It is worth mentioning that according to the new Article 6/A of the Competition Act, effective as of 1 July 2014, any form of communication, information or the making of a representation in any form with the aim or having the effect of promoting the sale or any other manner of placing on the market of goods or services, that can be utilized as (...) rights (hereinafter referred to collectively as "goods"), or in connection with this objective, the representation of the name, the trademark or the activities of a business entity that directly or indirectly identifies that business entity's competitor, or the goods manufactured, sold or introduced by such competitor for the same or similar purpose as those featured in the advertising (hereinafter referred to as "comparative advertising") is prohibited, if

- a) this may result in any unfair advantage derived from the reputation of the competitor or the name, goods, brand name or other designation of the competitor;
- b) this may harm the reputation of the competitor or the name, goods, brand name or other designation of the competitor;
- c) it presents goods as imitations or replicas of goods bearing a trademark or a protected other designation; or
- d) it creates confusion among market participants, between the business entity and the competitor or between the business entity's trade name, goods, brand name or other designation and those of the competitor.

7) Who bears the burden of proof in relation to any defences and/or limitations? In this context, please also consider the relationship with the element of "unfairness". For example, is it a defence that the use is with "due cause" (see paragraph 31 of the introduction) above and footnote 2) of the introduction? If so, can such use ever be "unfair"? Or is this just a matter of a shifted burden of proof?

As stated in our response to question 4) on use with due cause the burden of proof is shifted to the proprietor of the later mark in case the proprietor of the earlier mark proved the elements necessary for acceptance of his claim (e.g. reputation, actual and present injury to his mark with reputation or, failing that, a serious risk that such injury will occur in the future).

8) If a defence exists or only limited protection is available, what rights does that give the free rider? For example, may the free rider simply use the trademark or may the third party obtain a separate trademark registration in respect of the goods and/or services in respect of which the free rider is using the trademark?

In case there would be a "due cause defence" then the free rider can use his trademark (e.g. his own name) in the course of trade only in accordance with the requirements of fair trade practice. The "due cause defence", if any, is available for the defendant, only. A third party cannot make use of the privilege of the "free rider" because most probably he cannot present a "due cause defence" of his own.

9) Can the protection be invoked in:

- a) court in civil proceedings;
yes

Please comment:

b) court in other proceedings;

yes

if so what other proceedings (e.g. criminal proceedings):

criminal proceedings

c) opposition proceedings;

yes

Please comment:

d) any other?

yes

if so what, proceedings?:

In special circumstances in proceedings before the Competition Authority in connection with any infringement of the provisions relating to the prohibition of unfair commercial practices.

10) If the protection can be invoked in multiple proceedings, are there different requirements for different proceedings? If so, please state the requirements.

In criminal proceeding regarding the committal of the criminal offense on infringement of industrial property rights including trademark the conduct shall be committed intentionally which is not a requirement in other proceeding in which the protection is invoked.

II Policy considerations and proposals for improvements of the current law

11) Should there be protection against:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines; and/or

yes

Why?:

There shall be protection against the taking of unfair advantage of trademarks as defined in the Working Guidelines.

b) use that is similar but outside the scope of the definition in these Working Guidelines?

no

Why not?:

In our opinion protection against use, that is similar but outside the scope of the definition in the Working Guidelines, is not needed.

12) Is the basis for protection or the cause of action relevant?

yes

Why?:

The extended protection of trademarks having a reputation is relevant because these trademarks could be injured by the use of a later similar sign with respect to different goods/services.

13) Should it be possible to invoke the protection in all types of proceedings mentioned above under 9) above?

yes

Why?:

It is important to have possibility to invoke the protection in all types of proceedings mentioned under question 9) because the proprietor of trademark with reputation can protect and enforce his rights and can make decision on strategy on appropriate legal steps evaluating the lengths and costs of these proceedings and the probability of a favourable decision.

14) How can your current law as it applies to the taking of unfair advantage of trademarks and/or the interpretation thereof (in particular, in case law) be improved?

The geographical scope of the protection of trademarks with reputation within the European Union is an issue in the case C-125/14 Iron & Smith Kft. v Unilever NV pending before the CJEU which procedure started on the basis of the request for a preliminary ruling from the Fővárosi Törvényszék (Metropolitan Court of Budapest, Hungary). The Advocate General's Opinion was already published on 24 March 2015 which has raised many questions. Hopefully, the judgement of the CJEU will clarify the interpretation of the protection against the taking of unfair advantage of trademarks with reputation.

III Proposals for harmonisation

15) Is harmonisation in this area desirable?

no

Please comment:

No, there are fully harmonised rules in the EU in this area. The relevant case law could be further developed in order to have clear interpretation of rules within the European Union.

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

16) If your answer to question 11) is no in respect of a. and/or b., is it your view that no such protection should be available anywhere?

Yes, we think protection against use that is similar but outside the scope of the definition in the Working Guidelines is not needed because such further protection would constitute a legal uncertainty in the trademark law.

17) Should there be harmonisation of the definition of:

a) the taking of unfair advantage of trademarks as defined in these Working Guidelines; and/or

no

Please comment:

There should be no harmonisation in the definition; the relevant case law provides an appropriate interpretation.

b) use that you consider similar but outside the scope of the definition in these Working Guidelines?

no

Please comment:

There should be no harmonisation in the definition; the relevant case law provides an appropriate interpretation.

18) What should the basis for protection/cause(s) of action be?

Please see our response to question 4).

19) What should the requirements for protection be? In your answer, please address at least the following, in addition to any other relevant factors: what level of reputation, if any, in the trademark should be required, and who should bear the burden of proof?

Please see our response to question 4).

20) What defences against and/or limitations to the protection should be available? Please state the proposed requirements for any defence/limitation, and the effect of any defence/limitation.

We think the present defences against and limitations to the protection are appropriate.

21) Who should bear the burden of proof in respect of any defences and/or limitations?

The respondent as the owner of the later sign should bear the burden of proof in respect of any defences and/or limitations.

22) In what type(s) of proceedings should it be possible to invoke the protection?

It should be possible to invoke the protection in opposition procedure, trademark infringement proceedings, unfair competition proceedings and criminal law proceedings.

Summary

The Hungarian Trademark Act provides protection against taking of unfair advantage of reputed trademarks. The Hungarian legal practice is generally harmonized with the European case law. The landmark preliminary judgments of the CJEU and their conclusions are often referred to as precedent matters in Hungary by practitioners and authorities as well. This applies also to the determination of the elements of establishing the taking unfair advantage of reputed trademarks. For the reason of this already existing harmonization process with the European case law we believe that no specific

harmonization in the form of legal acts is needed, in particular since this automatic harmonization is continuously generated and maintained by a number of national proceedings referring to European case law.

Please comment on any additional issues concerning the taking advantage of trademarks in the sense of parasitism and free riding you consider relevant to this Working Question.

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