2019 Study Question

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IP damages for acts other than sales

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I. Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

1 **What non-sales infringing acts, i.e. infringing acts which do not involve sales, are recognised in your jurisdiction?**

Act. No. XXXIII. of 1995 on the protection of inventions by patents (Patent Act):

Section 19 of the Patent Act defines the scope of patent protection, namely the exclusive right for the exploitation /utilization of the invention. On the basis of the exclusive right of exploitation, the patentee shall be entitled to prevent any person not having his consent

(a) from making, using, putting on the market or offering for sale a product which is the subject matter of the invention, or stocking or importing the product for such purposes;

(b) from using a process which is the subject matter of the invention or, where such other person knows, or it is obvious from the circumstances, that the process cannot be used without the consent of the patentee, from offering the process for use;

(c) from making, using, putting on the market, offering for sale or stocking or importing for such purposes a product obtained directly by a process which is the subject matter of the invention.

[Above we cite the entire div to provide overview on the relevant rule, nevertheless, ‘putting on the market’ is outside the scope non-sales infringing acts.]

According to the Hungarian Supreme Court, "Section 19 of the Patent Act is not exemplificative; it definitively specifies those commercial exploitations that qualify as infringement in the lack of the right holder's authorization." (The list is regarded as an exhaustive list of restricted acts.)

Section 19 (3) of the Patent Act governs contributory infringement: on the basis of the exclusive right of exploitation, the patentee shall also be entitled to prevent any person not having his consent from supplying or offering to supply a person, other than a person entitled to exploit the invention, with means (instruments, appliances) relating to an essential element of the invention, for carrying out the invention, when such person knows, or it is obvious from the circumstances, that those means are suitable and/or intended for carrying out the invention. However. this provision shall not apply when the supplied or offered means are staple commercial products, except when the supplier or offeror

deliberately induces his client to commit the acts which fall under the exclusivity rights of the patentee.

The rules on the infringement of utility model (Act XXXVIII of 1991) and design protection (Act XLVIII of 2001) refer back to the provisions of the Patent Act.

The Act XI of 1997 on the Protection of Trademarks and Geographical Indications regulates the scope of the protection of trademarks in accordance with Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks.

Section 12(3) sets forth that the following, in particular, may be prohibited under the exclusive right of the trademark owner:

(a) affixing the sign to the goods or to the packaging thereof;
(b) putting the goods on the market or offering them for sale, or stocking themfor those purposes, under that sign;
(c) supplying or offering services under that sign
(d) importing or exporting the goods under the sign;
(e) using the sign on business papers and in advertising
(f) using the sign as a trade or company name or part of a trade or company name;
(g) using the sign in comparative advertising in a manner that is contrary to the provisions of the Act on the prohibition of unfair market practices and of the restriction of competition.

Act LXXVI of 1999 on Copyright

Article 17: Uses of the work shall include, in particular:

a) its reproduction (Article 18 and 19),
b) its distribution (Article 23)
c) its public performance (Articles 24 and 25)
d) its communication to the public by broadcasting or in any other manner (Articles 26 and 27),
e) retransmission of the broadcast work to the public with the involvement of an organisation other than the original one (Article 28),
f) its adaptation (Article 29),
g) its exhibition (Article 69).

2 **Please explain how damages are quantified, under the laws of your Group, in relation to infringing acts which do not involve sales of infringing products.**
(If the laws of your Group provided for different quantification of damages for different IP rights, please explain how damages are quantified for each type of IP right.)

According to the IP laws, in the case of infringement the right holder may enforce claim for damages according to the rules of civil tort liability set forth in the Civil Code.

Extent of tort liability [Section 6:522]
The infringer shall compensate the aggrieved party for all of his losses in full. Under the principle of the right to full compensation the infringer shall cover:

a) any depreciation in value of the property of the aggrieved party;
b) any lost profit; and
c) the costs necessary for the mitigation or elimination of the losses sustained by the aggrieved party.

In light of the principle of foreseeability, no causal relationship shall be deemed to exist in respect of any damage that the infringer could not and should not have foreseen at the time of the infringing behaviour [Section 6:521].

If the extent of damage cannot be precisely calculated, the person responsible for causing the damage shall pay a general indemnification that would be sufficient to compensate the aggrieved party [General damages, Section 6:531]

The Civil Procedural Code provides that the court shall determine the amount of damages to be awarded at its own discretion, after weighing all circumstances of the case, provided that it cannot be established based on the opinions of experts or other evidence [Weighing the results of the taking of evidence, Section 279(3)]

If the infringing activity is not the sale, but rather any preceding acts by the infringer only (i.e., manufacturing, warehousing), monetary loss may not occur (i.e., lost profit) as a consequence of the infringement.

In such a case, under Hungarian practice, the legal basis of the IP holder's action is not the claim for damages, but the IP holder may claim the payment of the unjust enrichment achieved by the infringement. The right holder does not have to evidence the amount of the loss, but the court can establish the amount of the payment obligation on the basis of a license analogy.

3 **Please explain what approach your current law takes in relation to "franking": if damages are paid in relation one infringing act (e.g. manufacturing) for specific infringing goods, can those goods then be circulated freely subsequently, or does their subsequent circulation amount to a fresh infringement in relation to which an injunction or damages may be available?**

There is no published judgement on franking. Even if the infringing manufacturer pays damages or a license fee (as unjust enrichment) afterwards, unless the parties agree otherwise the infringing activity cannot be considered as lawful, in light of the lack of the IP holder's prior license. The IP holder may, and in practice does, request a seize and desist decision, withdrawal from the commercial circulation and the destruction of the infringing goods as well. As there is no license, the right holder may request an injunction against any person who puts the infringing goods on the market and the exhaustion of rights cannot be invoked.

In the *Syed* decision (C-572/17), the CJEU held that the storage by a retailer of goods bearing a motif protected by copyright in the territory of the Member State where the goods are stored may constitute an infringement of the exclusive distribution right when that retailer offers for sale, without the authorisation of the copyright holder, goods identical to those which he is storing, provided that the stored goods are actually intended for sale in the territory of the Member State in which that motif is protected. Consequently, it can be decided on a case by case basis whether the storage in itself falls under the scope of distribution (the distance between the place of storage and the place of sale cannot, on its own, be a decisive element in determining whether the stored goods are intended for sale in the territory of that Member State). Distribution can be established if the storage is carried out under the control of the distributor. The storage in itself is an act falling under the scope of distribution. Nevertheless, it follows from this judgement that it can be examined whether the storage constitutes mere contribution or infringement.

Consequently, it shall be examined on a case by case basis whether the members of the distribution chain (i.e., retailer, carrier, warehouse) can be considered as infringers or as contributors whose services were used in connection with the infringement. If such a member of the distribution chain is considered as an infringer, all claims arising from infringement can be enforced, however, if such a person qualifies as a contributor only, only the claims for injunction and provision of data can be enforced.

II. Policy considerations and proposals for improvements of your Group's current law

4 **Are there aspects of your Group's current law or practice relating to the quantification of damages for non-sales infringements that could be improved? If YES, please explain.**

No

Please Explain

The claim for damages for non-sales infringement is enforced in the Hungarian legal practice under the concept of unjust enrichment, and the IP holder does not have to prove the amount of the actual loss, but rather either the actual enrichment of the infringing party has to be recovered or a hypothetical license fee can be claimed on the basis of the licencing practice in the given industry.

5 **What policy should be adopted generally in relation to non-sales infringements?**
Should:

Only an injunction be available to restrain future non-sales infringements?

Please Explain

Typically, the injunction provides appropriate protection, and before starting the distribution the IP holder usually has not suffered any loss. However, the claim for unjust enrichment can be enforced in light of all the circumstances of the case. Nevertheless, there can be cases where both damages and an injunction should be available. Example: if the infringer starts the manufacturing before the patent expiry in order to launch the product on the first day after the expiry, and such launch causes damages to the IP holder, the damages shall be compensated. Depending on the circumstances of the case, if the IP holder suffers damages, the IP holder can claim the damages, in the amount which occurred as consequence to the infringement, however, the IP holder may claim, at the minimum, appropriate licence fee as compensation.

6 **What policy, in relation to franking, would best promote a uniform recovery of damages in relation to infringements in a number of jurisdictions in relation to the same goods?**

The IP holder decides against whom it wishes to enforce its claim: i.e., against the manufacturer and / or against the importer (having its seat in another country). In the course of the enforcement procedure the IP holder shall provide separate evidence of the amount of any losses in connection with each infringing activity. If the manufacturer pays damages, this does not result in the exhaustion of rights. The rules on jurisdiction and recognition of foreign decisions prevent the IP holder from receiving higher compensation for the same loss in different proceedings.

7 **Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question?**

No.

III. Proposals for harmonisation

Please consult with relevant in-house / industry members of your Group in responding to Part III.
For the purposes of this div III, please assume that the following acts are infringing acts, even if they are not infringing acts under the current laws of your Group:
(a) Manufacturing;
(b) Selling;
(c) Offering whether for sale otherwise;
(d) Importing; and
(e) Keeping and warehousing.

8 **Do you believe that there should be harmonisation in relation to damages for non-sales IP infringement?**

No

Please Explain

As the rules on payment of damages belongs to the core of the civil law, in light of the current differences among the Member States' different legal systems it is not possible to achieve harmonisation in relation to damages for non-sales IP infringement. As can be seen from the introduction of the Study Guidelines, the definition of damages differs in the different jurisdictions. The claims for damages based on non-sales IP infringement are handled under general rules of the civil law. In practice, the rules on assessment of accounts of profit properly covers this issue. Consequently, in our view, it is not necessary to create specific rules to damages for non-sales IP infringement.

If YES, please respond to the following questions without regard to your Group's current law or practice.
Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

9 **Manufacturing of patented products: How should damages be quantified in relation to the manufacturing of infringing products?**

In practice, the rules on the assessment of accounts of profit properly covers this issue. The IP holder can claim a licence fee for manufacturing. Nevertheless, in the lack of a sale the licence fee shall be proportionate and limited in scope of use, when compared with the licence fee payable for licencing manufacturing and the sale of the products covered by the IP right. However, if the products are sold later (i.e., after the expiry date of the patent) it should be decided on a case-by-case basis whether a licence fee for manufacturing and/or the compensation for the actually suffered damages is appropriate. If the given IP is regularly licensed the license fee should be appropriate.

10 Should the subsequent export and sale of manufactured infringing goods change the quantification of damages?

In the case of export and sale of manufactured infringing goods to a third party, the IP holder has actually suffered loss, contrary to the non-sale actions. Therefore, the IP holder can, depending on its decision, enforce its claims against the manufacturer, and claim for compensation of damages or payment for unjust enrichment.

11 Importing and warehousing of patented products: How should damages be quantified in relation to importing and keeping or warehousing?

In the case of importing and warehousing of patented products, similarly to 10) above, the IP holder has actually suffered loss (lost profit), since the importer has purchased infringing goods, and not the goods of the IP holder. Therefore, the IP holder can, depending on its decision, enforce his claims against the importer, and claim for compensation of damages or payment for unjust profit. As a general rule the payment of unjust profit may be claimed even if the IP holder has not suffered actual damages.

12 Series of infringements in relation to patented products: In the situation where there is a series of infringing acts, such as manufacturing, followed by warehousing, followed by a sale, should damages be quantified, for each individual infringing product:

12.a On the basis of a sale alone, if that infringing product was eventually sold?

12.b On the basis of each infringing act in the chain?

12.c If the infringing product was never sold?

12.d On some other basis?

Due to practical reasons, the IP holder usually does not enforce its claims arising from the infringement against all members of the distribution chain. The main goals of enforcement are as follows:

– to stop the infringing activities (injunction), if necessary either at the level of the manufacturer, importer or wholesaler,
– to get information on all participants in the distribution chain, and
– to implement corrective measures (withdrawal of infringing goods).

In theory, if the IP holder simultaneously enforces claims for damages against several members of the distribution chain (manufacturer, wholesaler, retailer) in different procedures, it should be avoided that the IP holder gets total compensation that is higher than its actual losses. The reference by the defendants to the application of lis pendens can provide protection against such a situation. The members of the distribution chain can be considered as joint tortfeasors under tort law, with joint and several liability.

13 **Services/operating patented processes: please explain how damages should be quantified in relation to infringements that consist of carrying out infringing processes. e.g. a patented manufacturing process?**

Using a process which is the subject matter of a patent falls under the exclusive right of the patentee. The question arises whether the patentee (who manufactures the machine applying the patented process, but does not operate such machines) can enforce a claim for losses both against the manufacturer of the machine and the operator who purchases and operates the machine. In our view, the claim for a licence fee against the operator would be an appropriate remedy.

14 **Please explain how damages should be quantified for subsequent post-manufacturing activities in relation to the products of a patented process, e.g. the offering for sale of a product made using a patented process?**

The same consideration applies as to 13) above.

15 **Simultaneous single infringing acts: In the situation where there is a single act, such as an offer for sale on the internet, which amounts to an infringing act simultaneously in a number of jurisdictions, how should damages be quantified in each of those jurisdictions? For example, one single offer to sell products is made on the internet and that single offer is considered to infringe by the courts of two jurisdictions A and B. If court A awards damages for that single act which compensate for the loss suffered by the right holder, should court B also award damages and how should those damages be quantified so as to eliminate or reduce double recovery?**

If the IP holders starts action against the same infringer before courts in several jurisdictions, the rules on jurisdiction and lis pendens shall provide protection against double recovery.

16 **Franking: If damages have been paid in relation to goods that have been manufactured but the further circulation of those goods has not been restricted by injunction, should the infringer (or the acquirer of the goods) be liable again for damages if those same goods are subsequently sold?**

Yes

Please Explain

We cannot provide a proposal for the harmonisation of franking, which we consider as an unusual scenario since the IP holder could have and should have enforced not only the claim for damages, but also a claim for an injunction and the destruction of the infringing goods.

16.a **If the answer to Question 16 is NO, does that mean that the right holder can recover twice in relation to the same goods?**

16.b **If the answer to Question 16 is YES, does that mean that the infringer has a de facto licence to sell the manufactured infringing goods?**

17 **Please comment on any additional issues concerning any aspect of quantification you consider relevant to this Study Question.**

N/A

18 **Please indicate which industry sector views provided by in-house counsel are included in your Group's answers to Part III.**

No in-house counsel has participated in the work of the working group.