

Q292

Unjustified allegations of infringement of IP rights

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Respondent

17

Anonymous

21:58

Time to complete

Contact details

Kindly submit your and your groups contact details below. Please also include the authors of the reports.

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Hungarian Group of AIPPI

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I) Current law and practice

Please answer the below questions with regard to your Group's current law and practice.

Please answer all questions in Part I on the basis of your Group's current law. You may differentiate your answers based on different IP rights if applicable under your Group's current law.

5. 1. Does your current law draw a distinction between justified and unjustified allegations of infringement of IP rights?
Please answer YES or NO and add a brief explanation. *

☐ Yes

☒ No

6. (continued) Brief explanation

There is no explicit provision in Hungarian law on unjustified allegations of IP infringement.

In such cases, the rules of unfair market practice (unfair competition) apply:

- protection against defamation of reputation,
- a prohibition on boycotts, or
- in the absence of the application of the above specific rules: the general clause on the prohibition of unfair competition.

According to Section 3 of the Competition Act (Act LVII of 1996 on the Prohibition of Unfair Trading Practices and Unfair Competition), "it is prohibited to infringe upon or jeopardize the good reputation or credibility of any competitor by communicating or disseminating untrue facts, or by misrepresenting true facts with any false implication, or by any other practices." The protection against discrediting / the denigration of competitors aims to protect goodwill, which consists of reliability and trustworthiness as well. Denigration means untrue factual allegations which can harm goodwill. Denigration is aimed at influencing business partners with misleading information.

According to Section 5 of the Competition Act, "it is prohibited to make an unfair appeal to another party which is aimed at dissolving an economic relationship maintained with a third party or at preventing the establishment of such a relationship". The illegal action is the appeal to the recipient - contrary to fairness - to terminate an existing contractual relationship with the boycotted party, or to prevent the contract from being formed. The boycott appeal can be characterized as an intentional and wilful act with the expressed aim being to prevent the establishment of an economic relationship or to terminate such an economic relationship. Boycott can be established even if such an appeal was of no effect; therefore, the infringing party cannot escape liability with reference to the fact that the boycott appeal had not influenced the recipient's market behaviour. Boycott can be established if the appeal is unfair. The court shall analyze the entire content of the notification to see whether it contains any unfair invitation to terminate another existing business relationship.

There are very few published judgments which would provide clear guidance for the case of unjustified allegations of IP infringement. The Supreme Court (Curia) found it admissible that the right holders of a utility model, already based on the application but before registration, sent a notice to the alleged infringer and its business partners, calling on them to stop the infringement (Gf. 30.312/2018/16). According to the Curia, this does not mean that the notice was intended to stop business relations. The right holder can pursue his legitimate claim, or what he considers to be a legitimate claim at that time, against whom he would also be entitled to bring an action for infringement. Enforcement involves sending a pre-trial notice. The defendants did not exceed the limits of freedom of expression when they informed the users of the plaintiff's services concerning their pending utility model application and their opinion on infringement to protect their exclusivity right (rather than expressing the intention that the market participants should terminate their business relationship with the plaintiff).

Since IP rights may be subject to retroactive invalidation, the allegations must be assessed based on the facts as they existed at the time the allegations are made.

7. 2. If you answered YES to question 1) above, please continue answering to questions 2)-5) below. If you answered NO to question 1) above, please move to section II below.

What are the criteria for communications to be considered as an unjustified allegation of infringement under your current law?

8. 3. What kind of communications and by whom are considered as allegations of infringements of IP rights under your current law? E.g., *inter partes* correspondence, mass communications, communications by advisers, etc.

9. **4.** Under your current law, does the doctrine concerning unjustified allegations apply to all kinds of allegedly infringing activities alike? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

10. (continued) Brief explanation

11. **5.** What kind of remedies are available under your current law to the party who has been subject to such unjustified allegations of infringement:

a. Damages? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

12. (continued) *brief explanation.*

13. **b.** Injunctions against such allegations? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

14. (continued) *Brief explanation.*

15. **c.** Declarations that such allegations are unjustified? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

16. (continued) *Brief explanation.*

17. **d.** Fines or punitive damages? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

18. (continued) *Brief explanation.*

19. **e.** Other remedies? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

20. (continued) *Brief explanation.*

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

Please answer the questions of this Part II below. You may differentiate your answers based on different IP rights if appropriate and/or desirable in your view.

21. **6.** According to the opinion of your Group, is your current law regarding the boundaries for the legitimate exercise of an IP right holder's rights adequate and/or sufficient? *Please answer YES or NO and please explain your chosen view briefly. **

☒ Yes

☐ No

22. (continued) *Brief explanation*

While Hungarian law does not expressly address the boundaries for the legitimate exercise of an IP right holder, the general provisions of Hungarian law, in particular those set forth in the Competition Act, make it possible for a court to hand down a judgment on unjustified allegations of infringement of IP rights. Such general rules provide flexibility for courts to consider the special circumstances of each case.

23. 7. According to the opinion of your Group, what is the policy rationale for restricting the making of unjustified allegations of infringement of IP rights?

The possible recipients of the communication: the manufacturer/distributor of the alleged infringing product in Hungary and/or their business partners.

The Hungarian group sees no obstacle for the right holder to take action against the manufacturer/importer and to send a letter of formal notice. The policy rationale for restricting the making of unjustified allegations is to exclude market disruption caused by notifications to business partners. The notices must comply with the requirement of commercial fairness. A further element of the regulation is to avoid undue damage to business reputation.

In particular, the policy rationale is that market players do not necessarily have experience and/or resources to consider circumstances of each case, for example understanding the differences between various types of IP rights or the practical consequences of being involved in IP litigation on the defendant side. As a general rule if the recipient of the communication is a manufacturer or importer, they should have such experience and resources. However, other business partners, in particular if they are SMEs, might not have said experience and resources to be able to make a correct risk assessment. In particular SME retailers are prone to said risk.

24. 8. Is there a policy conflict between such restrictions and the availability of effective methods of enforcing IP rights, including without the need to resort to costly litigation by issuing cease and desist letters and if so how is such a conflict resolved? *

☐ Yes

☒ No

25. (continued) Brief explanation

It is of utmost importance that effective methods of enforcing IP rights shall be available. However, it is also relevant that enforcement, in general, should be fair. As mentioned above manufacturers and importers are expected to have experience and resources to make their own risk assessment.

The Hungarian group believes that there is no need to have statutory provisions on what is considered justified or unjustified allegations, as the overall assessment depends on the circumstances of each case, including the recipient of the communication, the content and language thereof, as well as the relevant business sector.

It would be detrimental if case law would develop in the direction that a potential future claim would hold IP right holders back from enforcing their IP rights. On the one hand, IP right holders should consider sending their communication primarily to market players against which they will potentially enforce their IP rights. On the other hand, IP right holders should not be deprived of the opportunity to send a communication to other market players, but in such case a careful assessment of all circumstances should be made. This includes the position of the recipient in the distribution chain and the presumable experience of the recipient in relation to IP rights. In any case, the language should be fair and up to professional standards. As far as the content is considered, the communications should be based on real and true facts and refer to relevant statutory provisions.

The Hungarian group believes that communication should include recommendations on obtaining advice from an independent legal counsel who has experience in the field of IP rights, thus enabling each market player to make their own risk assessment. As a general rule, a recipient must have ample time to obtain advice and make said risk assessment. Therefore, unrealistically short deadlines should be avoided, unless the circumstances to the case leave no other option for the IP right holder.

26. 9. Is it better, from a policy perspective, to judge whether an allegation was unjustified based on (a) an objective hindsight-based view on whether the IP right in question was valid and being infringed at the time notifications were made, or (b) the reasonable subjective belief of the IP right holder. *

☐ (a) above (an objective hindsight-based view on whether the IP right in question was valid and being infringed at the time notifications were made)

☒ (b) above (reasonable subjective belief of the IP right holder)

27. (continued) Brief explanation

The Hungarian group believes that an objective hindsight-based view should be the preferred approach to assess the legal consequences if the injunction was unjustified. The relevant provisions of the Patent Act reflect this approach. Section (12a) of Article 104 of the Patent Act sets forth that if the court subsequently finds in the course of the proceedings that the application for preliminary injunction is unfounded, the court shall, on application, order the party who initiated the preliminary injunction to compensate the respondent for the damage caused by the preliminary injunction. In the proceedings, the application for preliminary injunction may be found to be unfounded in particular if (i) the patent is subsequently invalidated or the European patent in force in Hungary is revoked, (ii) the preliminary injunction is revoked by an act or omission of the applicant; or (iii) the court finds that there has been no infringement of the patent and, on the basis of the evidence available, the court considers that there was no imminent threat of infringement.

In Part III, the Hungarian group proposes that the court shall apply the bad faith standard for assessment of the allegations on infringement. While the application of the legal consequences of an unjustified preliminary injunction shall be based on an objective hindsight-based view, as the outcome of the validity and infringement is already known, the assessment of the unjustified allegation should be based on the reasonable subjective belief of the IP right holder i.e., whether it had a dishonest intention, which should be determined by reference to objective circumstances, i.e. behaving in a way which departs from accepted principles of ethical behaviour or honest commercial and business practices. In the Competition Act, the boycott appeal is considered as an intentional and wilful act.

28. **10.** 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 answer the questions of this Part III below. You may differentiate your answers based on different IP rights if appropriate and/or desirable in your view.

29. **11.** Do you consider harmonisation regarding unjustified allegations of IP infringement and their consequences as desirable in general? *Please answer YES or NO and add a brief explanation. **

☐ Yes

☒ No

30. (continued) brief explanation.

In the Hungarian Group's view, the Paris Convention (Art 10bis) and current Hungarian national law provide appropriate frameworks for seeking relief against unjustified allegations. To ensure an appropriate balance between an IP right holder's legal interests and those of other market players, competent courts and authorities should have the opportunity to assess whether an allegation is sufficiently justified on a case-by-case basis, taking all circumstances of the case into consideration. To that end, no harmonization is necessary on the level of detailed rules.

31. If your answer to question 9) was YES, please respond to the following questions without regard to your Group's current law or practice. Even if you answered NO to question 9), please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

12. In what kind of circumstances should an allegation of IP infringement be considered as "unjustified" so as to be considered abusive? Please add a brief explanation.

An allegation of IP infringement should be considered 'unjustified' in the sense that it may be considered abusive if the IP right holder acts in bad faith when alleging IP infringement. In this respect, an overall assessment should be made, taking all the relevant factors of the individual case into account.

Bad faith should be interpreted as a 'conduct which departs from accepted principles of ethical behaviour or honest commercial and business practices' (see opinion of Advocate General Sharpston of 11/06/2009, C-529/07, Lindt Goldhase, EU:C:2009:148, § 60). This definition presupposes a dishonest intention on the part of the IP right holder. Such a dishonest intention is 'a subjective factor to be determined by reference to objective circumstances' (11/06/2009, C-529/07, Lindt Goldhase, EU:C:2009:361, § 42). The Hungarian Group proposes to apply the standard of bad faith as developed in the trademark law.

Circumstances to be taken into account may include, inter alia, whether

- the IP right in question has already been registered or the registration procedure is ongoing,
- the IP right in question is subject to substantive examination before registration or the competent authority does not examine registrability criteria,
- the 'allegation' is aimed at objectively informing the addressee on the existence of the given IP right or rather coercively poses a prospect of serious legal consequences (e.g. criminal proceedings),
- the 'allegation' is addressed to the alleged infringer or rather to the public-at-large thereby publicly harming the reputation of the alleged infringer etc.,
- the 'allegation' is a first warning before litigation or the IP right holder repeatedly threatens the addressees with legal consequences but refrains from bringing the dispute to court.

32. **13.** In what kind of circumstances should an allegation of IP infringement be considered as "unjustified" so as to be considered abusive? Please add a brief explanation.

a. Making an allegation of infringement which later is proved incorrect, e.g. because a court determines that the IP right in question was not infringed or was invalid, regardless of the knowledge of the parties? *

☐ Yes

☒ No

33. (continued) Brief explanation

No, an allegation of infringement later proving to be incorrect should not be categorically considered unjustified.

34. **b.** Making an allegation of infringement while having actual knowledge of validity-destroying circumstances? Please answer YES or NO and add a brief explanation. *

☒ Yes

☐ No

35. (continued) Brief explanation

Yes, an allegation of infringement while having actual knowledge of validity-destroying circumstances should be considered as dishonest and, thus, unjustified.

36. **c.** Making an allegation of infringement while the person making the allegation should have known (constructive knowledge) of validity-destroying circumstances? *Please answer YES or NO and add a brief explanation. **

☐ Yes

☒ No

37. (continued) Brief explanation

No, constructive knowledge should not, per se, categorically render the allegation unjustified. However, a thorough overall analysis should be made of all relevant factors (e.g. the actual wording of the allegation, addressees etc.).

38. **d.** Are there other situations in which alleging IP infringement when having concerns about the validity of the IP right in question should be considered unjustified so as to be abusive? *Please answer YES or NO and add a brief explanation. **

☐ Yes

☒ No

39. (continued) Brief explanation

No, simply having concerns about the validity should not, per se, categorically render the allegation unjustified. However, a thorough overall analysis should be made of all relevant factors (e.g. the actual wording of the allegation, addressees etc.).

40. **e.** Making an allegation of infringement before the IP right has been granted? *Please answer YES or NO and add a brief explanation. **

☐ Yes

☒ No

41. (continued) Brief explanation

No, making an allegation of infringement before the IP right has been granted should not, per se, categorically render the allegation unjustified. However, the IP right holder should objectively inform addressees that the IP right is in its application phase and that the authorities may reject the application.

42. **f.** Making an allegation of infringement while having actual knowledge of circumstances leading to non-infringement? *Please answer YES or NO and add a brief explanation.*

☒ Yes

☐ No

43. (continued) Brief explanation

Yes, an allegation of infringement while having actual knowledge of non-infringement should be considered unjustified.

44. **g.** Making an allegation of infringement when one knew or should have known (actual or constructive knowledge) that the likelihood of the infringement claim succeeding is low? *Please answer YES or NO and add a brief explanation.* *

☐ Yes

☒ No

45. (continued) Brief explanation

No, constructive knowledge should not, per se, categorically render the allegation unjustified. However, a thorough overall analysis should be made of all relevant factors (e.g. the actual wording of the allegation, addressees etc.).

46. **h.** Making an allegation of infringement in public or commencing formal proceedings (e.g., seeking injunctions) when settlement negotiations or other resolution processes (e.g., license fee determinations) are on-going? *Please answer YES or NO and add a brief explanation.* *

☐ Yes

☒ No

47. (continued) Brief explanation

No, making an allegation in public should not, per se, categorically render the allegation unjustified but a thorough overall analysis should be made of all relevant factors. On the other hand, commencing formal proceedings should not be considered unjustified even if settlement negotiations or other resolution processes are on-going.

48. **i.** Are there other specific scenarios or circumstances that in your Group's view should categorically result in an allegation of infringement being considered unjustified? *Please answer YES or NO and add a brief explanation.* *

☐ Yes

☒ No

49. (continued) Brief explanation

No, the assessment whether an allegation is unjustified should be an overall assessment, made taking all the relevant factors of the individual case into account.

50. **14.** Should the (a) motivation or (b) knowledge of the alleging party play a role in assessing whether an allegation is unjustified so as to be considered abusive? *

- ☐ Motivation of the alleging party should play a role
- ☐ Knowledge of the alleging party should play a role
- ☒ Both motivation and knowledge of the alleging party should play a role
- ☐ Neither motivation nor knowledge of the alleging party should play a role

51. (continued) Brief explanation

Yes, the (a) motivation and (b) knowledge of the alleging party play a decisive role in assessing whether an allegation is unjustified, as the allegation of IP infringement should be considered 'unjustified' and unfair (abusive) if the IP right holder acts in bad faith when alleging IP infringement.

52. **15.** What kind of communications should be considered as allegations of IP infringement:

a. Should *only* proceedings formally commenced before a court or other authority be considered as allegations of infringement? *Please answer YES or NO and add a brief explanation.* *

- ☐ Yes
- ☒ No

53. (continued) Brief explanation

The allegations of infringement cover a pre-trial notice, which per se cannot be considered as unfair.

54. If you answered NO to (a) above:

b. i. Apart from formal proceedings, should only communications with an express threat of formal proceedings be considered as allegations of infringement? *Please answer YES or NO and add a brief explanation.* *

- ☐ Yes
- ☒ No

55. (continued) Brief explanation

The allegations of infringement cover any type of communication which refers to IP infringement. If it contains an express threat of formal proceedings, depending on the wording and the scope of recipients, it may constitute an unjustified allegation. If it threatens criminal charges, that could be considered as unfair as extortion. Further, if the notice is sent by an attorney, the ethical rules of attorneys must be complied with (see Q16).

56. **b. ii.** If you answered NO to (i) above, what other kinds of communications should be considered as allegations of infringement?

The allegations of infringement cover any type of communication which refers to IP infringement. In the assessment of the allegation a distinction should also be made on the basis of whom the notice is addressed to: manufacturer, importer, or other member of the distribution chain. Further, different standards might be applicable if the addressees are SMEs.

57. **16.** Should only allegations of infringement by the IP right holder itself be considered? Please answer YES or NO and add a brief explanation. In particular, if you answered NO, please specify whose allegations should be considered (e.g., allegations by a non-exclusive licensee, an exclusive licensee, group companies, attorneys and other advisors, third parties, etc.). *

☐ Yes

☒ No

58. (continued) Brief explanation

The Hungarian Group is of the view that allegations of infringement by licensees, members of the IP right holder's group of company, or legal representatives acting on behalf of the IP right holder or the above-mentioned entities should also be considered. In the latter case - allegations of infringement by legal representatives - the legal representatives are bound to observe the applicable provisions when issuing any such communications, namely Art. 13 of the Ethics Code of the Hungarian Bar Association. Ethics Code violations may occur if the specific wording of the allegations could be perceived as coercive, in particular when referring to potential criminal law consequences.

59. **17.** If an allegation of infringement of IP right is determined to have been unjustified so as to be abusive, what should be the consequences of unjustified allegations of infringement of IP rights:

a. Should damages be available to the party having been alleged to infringe the IP right? Please answer YES or NO and add a brief explanation. *

☒ Yes

☐ No

60. (continued) Brief explanation

The Competition Act explicitly states that the injured party may demand compensation for damages in accordance with the rules of civil law (tort law). The claim shall grant recovery of both economic loss and non-material loss.

61. **b.** Should declaratory judgements that such allegations are unjustified be available to the party having been alleged to infringe the IP right? Please answer YES or NO and add a brief explanation. *

☒ Yes

☐ No

62. (continued) Brief explanation

The injured party (i.e. the party having been alleged to infringe the IP right) shall have the right to claim declaratory judgment as a basic remedy.

In addition, in such a lawsuit the injured party may also demand that the infringer make amends for his action by way of a statement or in another appropriate manner, and if necessary, that such amends should be given due publicity by or at the expense of the infringer. Due publicity shall include publication in a national daily newspaper and/or display on the internet. Thus, the declaratory part of the judgment may be published in a newspaper and/or on the internet upon the request of the injured party, which means that it will be publicly available to anybody.

63. **c.** Should injunctions against such unjustified allegations be available to the party having been alleged to infringe the IP right? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

64. (continued) Brief explanation

The injured party (i.e. the party having been alleged to infringe the IP right) shall have the right to claim an injunction as a basic remedy.

65. **d.** Should fines or punitive damages be ordered against the party making the allegation? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

66. (continued) Brief explanation

Pursuant to Section 87 of the Competition Act, the proceeding court may also impose a fine on the defendant. The application of this provision is in the sole discretion of the court (irrespective of whether or not the plaintiff requests the court to apply this sanction). We note that we are not aware of any published court decision in which the court has imposed a fine as a sanction.

Furthermore, if the unjustified allegation also qualifies as a violation of personality rights (e.g. a violation of goodwill/reputation), the plaintiff may also request the court to oblige the defendant to pay a so-called solatio doloris (a compensation for immaterial, non-economic damages, in German legal terminology: Schmerzensgeld) which the injured party can enforce for the suffered non-material harm arising from a breach of personal rights as compensation and a monetary civil law sanction. In comparison to the claim for economic damages (monetary loss arising from the injury of personality rights) which can be enforced against the culpable infringer, in the case of a claim for Schmerzensgeld based on the injury of personality rights, the injured party does not have to prove the loss, but must indicate which personality right is injured by which behaviour and what the facts and circumstances of the injury are.

67. **e.** Other than the consequences referred to in a-d above, should there be other types of consequences? *Please answer YES or NO and add a brief explanation. **

☒ Yes

☐ No

68. (continued) Brief explanation

In addition to those mentioned above, the plaintiff shall be entitled to claim: that amendments be made to the infringement - by declaration or in some other appropriate manner - and, if necessary, that such amendments should be made public by and at the expense of the infringer; appropriate measures for the dissemination of the information concerning the decision, at the expense of the infringer, in a way as decided at the discretion of the court.

69. 18. Who should bear the burden of proof of the unjustified/justified nature of the allegation of infringement?

According to the Hungarian group's view, as a general rule: the burden of proof shall be borne by that person who states that the allegation of infringement is unjustified or abusive (the plaintiff).

70. 19. Please comment on any additional issues concerning any aspect of equivalents that you consider relevant to this Study Question.

N/a.

71. 20. Please indicate which industry sector views provided by in-house counsels are included in your Group's answers to Part III.

In-house counsel in the Group: pharma industry.