A SURVEY ON LAW RELATING TO LICENSING IN HUNGARY

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In the recent course of change-over to a free market economy system in Hungary (since 1989) the technology transfer has become one of the key-questions. On the other hand, the Association Agreement with the European Community of 1991 made an important influence on Hungary's international co-operation in general. In this Agreement Hungary declared herself ready to harmonise her legal system to that of the European Community.

This paper cannot have the purpose of giving a detailed scientific analysis, it is intended to offer a broad overview on this topic from the view of the everyday practice. It is hoped that my presentation will provide a useful basis for lawyers and patent agents whose clients intend to take part in business activity in Hungary.

1. LEGISLATION FRAMEWORK

License agreements entered into under Hungarian law are affected generally by:

A) The Hungarian Civil Code Act No. IV. of 1959, as amended several times (C.C.);

B) The Intellectual Property Law - as part of the civil law comprising
   - the Patent Act No. II. of 1969, as amended in 1983 (P.A.),
   - the Trade Marks Act No. IX. of 1969,
   - the Utility Models Act 38 of 1991,
   - the Law-Decree 2B of 1978 on Industrial Design,
   - the Semi-Conductor Integrated Circuits Act No. 39 of 1991;

C) The Unfair Competition Act 86 of 1990 (U.C.A.);

D) The Company Act No. VI. of 1988;

E) The Foreign Trade Act No. III. of 1974, as amended;

F) Law-Decree No. 112/1990 (XII. 23.) on Export & Import of Goods, Services and Intellectual Property.

2. PROTECTION OF CONFIDENTIAL INFORMATION

The Civil Code is the major source for legal protection of intellectual products in the broader sense. Under Article 86 the basic provisions are the following:

(1) "An intellectual product is protected by law".

(2) "The law additionally protects also intellectual creations which are not protected under special regulations, if they may widely be used in society and have not yet come into the public domain.

(3) "Protection is due to persons also with respect to their economic, technical and organisational knowledge and experience of pecuniary value. The commencement and the substance of protection are defined in separate regulations."

As to the enforcement, Section 4(1) of the Law-Decree No. 2 of 1978 (amending the Civil Code) states as follows:

"Protection is due to persons in respect of their economic, technical and organisational knowledge and experience having financial value in case of an already started or foreseen use until passage into the public domain."

From the above citations it is clear that the Civil Code provides protection for intellectual creations in general. On the other hand, Article 87 states that the owner may raise civil claims when his knowledge and experience has been stolen or used by an unlawful user:

(1) "A person whose rights to intellectual property have been violated, in addition to the protection determined by a separate legal rule may raise civil claims under the dispositions related to the violation of personal rights."

(2) "Within the scope of the protection of intellectual property of economic, technical and organisational know-how and experience of pecuniary value, not belonging under separate provisions of law, the interested person may additionally claim that the person who has made use of his results let him have a share in the pecuniary advantages obtained."

So the Civil Code does not prohibit unfair acquisition or publication of knowledge or experience or use, however, the Unfair Competition Act contains prohibition thereof without the consent of the lawful owner.

Under the term "trade secret" according to the U.C.A. all data, information and solutions are to be understood in the broadest sense which relate to e.g. financial matters, customer lists, technical information, formulae, models, conditions of one's business activity etc. It is obvious that this also contains know-how, even non-technical know-how, too [1].

3. PATENT ACT REQUIREMENTS

Although it is not intended to review all the provisions of the Patent Act, there are a few important features of the Act affecting licensing which are worth mentioning.

3.1 Registration, Approval, Restrictions

There is no requirement in the Patent Act to register every grant of a patent license in the Patent Office, so there is an optional registration. But a license agreement may be invoked against third party, who acquired his right in good faith and for a consideration only if it is recorded in the Patent Register (Art. 17).

There are not limitations in Hungary as to the territory, field of use, royalty rates, term etc., and an approval or notification of a license agreement is not needed. So the contracting parties can agree to conditions freely. Furthermore, the parties are absolutely free to agree to exclusive or non-exclusive licenses (Art. 18(2) of P.A.).

3.2 Compulsory License

A Hungarian patent is subject to compulsory licensing within 3 years from the date of the grant of the patent or within 4 years from the date of filing (whichever is the longer) if there is a failure to working the patent in Hungary, or patentee has not undertaken serious preparations or has refused to grant a license. Any organisation or person having right to exercise business activity in Hungary may apply for a compulsory license at the Court (Art. 21).

On the other hand, compulsory license may also be granted in the case of dependent patents, that is, if a patent cannot be used without infringing another patent (Art. 22).

It is to be noted that compulsory licenses are always non-exclusive and they are to be recorded in the Patent Register. Furthermore, a compulsory license may be assigned or transferred only with the enterprise concerning which it was granted. A further limitation lies in that the compulsory licensee may not grant sub-license (Art. 23).

3.3 Royalty Rates

The contracting parties can agree to any royalty rate. There is not any restriction. But, a request for payment of royalty after expiry of the licensed patent would be against the spirit of the Patent Act, because patentee may exercise his rights only during the term of the patent. So a payment after expiry of the patent (or after revocation thereof) could not be enforced.

It is to be noted that a "no challenge clause" in a license agreement would be against Art. 23 (P.A.) because according to the cited Article "anybody" has right to file a request for invalidation of a patent. So, of course, licensee also has to have right to start revocation proceedings in the case of a licensed patent, namely it should be done in the public interest.

3.4 Infringement - Revocation

In the case of a patent infringement, the licensee recorded in the Patent Register may start proceedings in his own name against the infringer, if the patentee fails to take the necessary action in due time (Art 27(2) of P.A.).

It is important to mention that the patent revocation proceedings are completely separated from infringement actions in Hungary. In an infringement litigation (to be

filed at the competent Court) the validity of the patent cannot be disputed; this may only be done in revocation proceedings (to be filed at the Patent Office). A revoked patent is to be considered as if it had not existed at all, that is, the status quo prior to the grant of the invalid patent is restored with retroactive effect [2]. The revocation of a patent is to be recorded in the Patent Register (Art. 32 of P.A.)

3.5 Amendments to be expected:

Under influence of international harmonisation the current Hungarian Patent Law will be amended in the near future, probably in 1993. This harmonisation is also motivated by the fact that Hungary is going to join the European Patent Convention before 1997. So the following main modifications can be expected:

- "Product protection" for chemical products, medicines, foodstuffs will be introduced;
- The "Doctrine of Equivalence" will be used in the patent claim interpretation;
- "Grace period" of 6 months will be introduced;
- The statutory requirements of patentability will be: novelty, inventive step and industrial applicability.

3. LIMITATIONS TO LICENSE AGREEMENTS

The Competition Act (U.C.A.) deals with the prohibition of unfair market behaviour (a. o. of deceiving consumers, agreements limiting economic activity: cartels, abusing superior economic power), and contains limitations to license agreements, too, a few of which are very important as prohibition clauses:

4.1. Package license

Under section 14 of U.C.A. package licensing seems to be unfair practice, prohibiting restriction of competition in general. But, a justifiable reason can be in the author's view that a group of patents (at least two) is reasonably required for effective working of a patented invention (e.g. in case of dependent patents).

4.2. Royalty calculated by price including non-patented products

An obligation for payment of royalty under non-licensed products is likely be considered unfair practice under Section 22 of U.C.A., if licensee uses the license only for a part of the production. This section prohibits any extraordinary differences between services and counter-services, that is, unfair prices in general. It is to be noted that this prohibition may be invalid for know-how.

4.3. Obligations to use non-patented raw materials of the licensor

The so-called "tie-in" clause in a license agreement may be unfair trade practice, except when such restrictions are necessary to guarantee the effective working of a licensed patent. Section 9 of U.C.A. prohibits in general the combined sale and linked buying, as well.

It may be an exception to use this clause if licensor would deliver a part of an intermediate product at least in the first (training) phase of using the license.

4.4. Effect of expire of underlying patent on license agreement

A request for paying royalty after the expiration of the licensed patent is to be considered as unfair trade practice under Section 2 (U.C.A.), which prohibits unfair market activities in general. On the other hand, it would be against the spirit of the Patent Act, as mentioned above (see item 3.3).

4.5. Obligation to Use Trademark Designated by Licensor

In this respect there is not any limitation in Hungary.

It is to be noted that the case is very simple when the licensee also wishes to use such a trademark. But, if this trademark has not been registered, the licensor should guarantee - for the duration of the agreement - that third parties have not had any rights, which would prevent or limit its exploitation.

4.6. Choice of Law Clause

This question is open to the agreement of the contracting parties. The governing law is generally the licensor's national law, but, in a special case it may be e.g. the Swiss, German or Austrian substantive law, too.

4.7. Arbitration Clause

The normal Courts may have jurisdiction or an institutional arbitration Court can be chosen, e.g. the International Chamber of Commerce in Paris, or the Court of Arbitration in Vienna, Zurich or Stockholm. The Hungarian Chamber of Commerce also has Arbitration Court.

5. MIXED LICENSES

In the case of mixed licenses, that is, when patent and secret know-how are to be treated in a common license agreement, special care is needed.

There is not any direct restriction in the Hungarian laws in this respect. From a drafting point of view it is advisable to set forth express provisions with respect to the termination in royalty payments following the expiration or revocation of the licensed patent. It may be especially important when the license agreement relates to two or more patents. But, from practical viewpoint it seems to be wiser - if possible - to treat trade secret (know-how) and patent rights in separate agreements, which should be co-ordinated - of course - with each other.

6. FINAL REMARKS

It may be concluded that the present guiding laws and regulations in Hungary can fulfil their intended function. The licensor or licensee has strong legal means, which

are enforceable. However, a streamlined amendment of the Hungarian legal system can be expected soon in accordance a. o. with the EEC regulations.

References:

[1] I. Gazda: Technology transfer between market-economy and former socialist countries (AIPPI Proceedings No. 18, 1991, pp. 60-79, Budapest, Hungary);

[2] Dr. J. Markó: Patent revocation proceedings in Hungary (AIPPI Proceedings No. 18, 1991, pp. 31-41, Budapest, Hungary)

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Published: LES Nouvelles, Sept. 1994
