

# EXHAUSTION OF INTELLECTUAL PROPERTY RIGHTS IN HUNGARY

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## Introduction

Several attempts are taking place internationally for the application of international exhaustion of intellectual property rights in order to promote free movements of products and services in the globalizing world market. Whereas on the other hand protection of inventions and brands connected to the state where IP rights are protected provided that states may apply different rules on the exhaustion of such rights to protect those who invested high R&D or PR or marketing costs for the development and or promotion of products and brands. The debate for or against national or regional versus international exhaustion of Intellectual Property Rights is still a hot topic.

In our opinion, the issue of international exhaustion has not only legal, but also political and economic aspects. The precondition for the legal harmonization is the existence of the appropriate political and economic circumstances. Thus, before taking a standpoint concerning the general acceptance of the principle of international exhaustion, it is necessary to carry out an economic analysis which sets forth its positive and negative effects, with regard to its consequences for the public wealth, interests of national economies and individual IP owners.

From the legal prospective the rights arising from each IP right are different not only with respect to the **subject and function** of the protection but also its **duration (possibility of renewal)**. It must be kept in mind that the same product may be protected simultaneously by several IP rights (i.e., software products are protected by copyright, trademark law and - if its requirements are met - by patent law).

From among industrial property rights, Hungarian statutory/positive law provides for the domestic exhaustion of patent and trademark rights. International exhaustion is set forth only with respect to the protection of the layout of microelectronic semi conductors.

With respect to exhaustion the statutory Hungarian regulation is the following:

### 1. Patent right

According to the regulations of the act on patents, the holder of the patent has an exclusive right for utilization on the basis of which the patentee can act against any person who - without the consent of the patent holder - for the purpose of manufacturing, using or distributing, imports the patented product or a product directly manufactured by the patented process (Section 19 (1) and (2) of Act XXXIII of 1995 on Patents, hereinafter the "Patent Act").

According to a further provision of the Patent Act, the exclusive right of utilization arising from patent protection does not cover further acts related to a product distributed within Hungary by the patentee, or with his express consent (Section 20. of the Patent Act).

The reasoning related to the Patent Act sets forth that - on the basis of the collision norm *lex loci protectionis* and the territoriality of patent protection - the effect of the exhaustion of patent rights is limited to the distribution of the product in Hungary, therefore, the applicability of "international exhaustion" is excluded.

On the basis of the above, the owner of the patent right can use the patent against parallel imports from another country, when the imported product has been put on the market in that country by the patentee or with his consent.

## **2. Trademark**

According to the provisions of Act XI of 1997 on the Protection of Trademarks and Geographical Product Markings (hereinafter: the "Trademark Act"), on the basis of the trademark proprietor's exclusive right to use the trademark, without the consent of the trademark proprietor the importing of goods bearing the mark is prohibited (Section 12(1) and (3) of the Trademark Act).

However, trademark protection shall not entitle the trademark proprietor to prohibit the use of the trademark in relation to goods which have been placed on the domestic market by the proprietor or with his express consent (Section 16(1) of the Trademark Act).

The above provision shall not apply where the proprietor has a legitimate reason for opposing further commercialization of the goods, in particular if the state or condition of the goods has changed or been impaired (Section 16(2) of the Trademark Act).

The reasoning related to the Trademark Act sets forth with respect to this provision that the exhaustion of the right is regulated in accordance with Section 7 of Directive No. 89/104/EGK with the necessary difference being that until Hungary's accession to the EU, the providing for the exhaustion of the right is only justified in the case of the introduction of the goods on the domestic market.

## **3. Utility Models**

Act XXXVIII of 1991 regulates the protection of utility models (hereinafter: "Utility Model Act").

According to the provisions of the act, on the basis of the utility model protection, the owner's exclusive utilization right extends to the manufacture, use, import and distribution of the protected product within business activities (Section 12 of the Utility Model Act).

As a result, the owner, on the basis of his utility model right, is entitled to prohibit the import without his consent of products injuring his utility model right. According to the Utility model

Act, the unauthorized use of the model protected by utility model protection infringes the utility model right (Section 19(1) of the Utility Model Act).

The Utility Model Act contains no provisions with respect to national exhaustion, and there is also no jurisprudence on point. However, from the provision regarding the infringement of the utility model right, the following conclusion can be drawn: in case the owner of the utility model right distributed the product which embodies the utility model in a domestic market, the person who acquired ownership rights over such product utilizes it on the basis of its ownership right, therefore the issue of whether such utilization is unauthorized or not, cannot arise.

#### **4. The layout of microelectronic semi conductors**

According to the provision of Act XXXIX of 1991, on the basis of the protection, the right owner has an exclusive utilization right of the layout, which includes but is not limited to the import and distribution for commercial purposes of the layout or the semi conductors embodying the layout.

According to the act, however, the protection does not extend to the import and further distribution of the layout and the semi conductors embodying the layout which were distributed by the right owner or with his consent (Section 7(1) and (4) of the act).

In the case of the layout of chips - as opposed to all other industrial property rights - the international exhaustion of the right prevails, therefore, the parallel importation of goods is allowed.

#### **5. Industrial design**

Law-decree No. 28 of 1978 on the Protection of Industrial Design (hereinafter: "Law-Decree") does not contain any provisions regarding exhaustion. According to the Law-Decree, on the basis of the protection of the industrial design, the exclusive right of the owner includes, but is not limited to, the import of the product embodying the industrial design. Therefore, the owner can prohibit the parallel import of the products.

In addition to the protection of industrial designs on the basis of the Law-Decree, copyright protection can also apply to industrial designs (Section 4 of the Law-Decree).

#### **6. Copyright protection**

According to Act LXXXVI of 1999 on Copyright ("Copyright Act"), exhaustion only applies to further transfers of ownership regarding the copies of work, and copyright is exhausted only by distribution in Hungary of the copies of work (Section 23(5) of Copyright Act). Therefore, the copyright owner can prevent parallel import.

## **7. Expected changes in the regulation**

According to Government Resolution No. 2140/2000 on the Legal Harmonization Program, the regulation of all intellectual property rights must be modified so that instead of national exhaustion, regional exhaustion shall apply upon Hungary's accession to the EU. The Resolution also states that the rules regarding exhaustion shall be established in accordance with the jurisprudence of the European Court of Justice.

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