

Hungarian Law Invites Licensing

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Overhaul of laws affecting licensing in Hungary: Investors and licensors are well protected

It is the recent change-over to a free-market economy in Hungary (since 1989), industry transfer has become a key question. On the other hand, the Association Agreement with the European Community of 1993 has had an important influence on Hungary's international cooperation. In this Agreement, Hungary declared her will ready to harmonize her legal system to that of the European Community.

This paper cannot give a detailed analysis, but 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 to whose clients intend to take part in business activity in Hungary.

LEGISLATION FRAMEWORK

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

1. The Hungarian Civil Code Act No. IV. of 1959, as amended several times (C.C.C.);
2. The Intellectual Property Law — as part of the civil law — comprising:
 - The Patent Act No. II. of 1969, as amended in 1985 (P.A.);
 - The Trade Marks Act No. IX. of 1969;
 - The Utility Models Act 38 of 1981;
 - The Law-Decor 26 of 1988 on Industrial Design;
 - The Semi-Conductor Integrated Circuits Act No. 39 of 1988;
3. The Unfair Competition Act No. of 1990 (U.C.A.);
4. The Company Act No. VI. of

1996.

5. The Foreign Trade Act No. III. of 1988, as amended;

6. Law-Decor No. 112/1990 (MLL) on Export in respect of Goods, Services and Intellectual Property.

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:

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 organizational knowledge and experience of pecuniary value. The commencement and the substance of protection are defined in separate regulations."

As to introduction, Section 4(1) of the Law-Decor No. 2 of 1988 (amending the Civil Code) states as follows:

"Protection is due to persons in respect of their economic, technical and organizational knowledge and experience having financial value in case of an already stated or known one not brought 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.

"If a person whose rights to intellectual property have been violated, in addition to the protec-

tion 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 organizational 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 at him have a share in the pecuniary advantages obtained."

In the Civil Code does not prohibit certain acquisition or publication of knowledge or experience or use. However, the Unfair Competition Act contains a 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 for example to financial matters, customer lists, technical information, formulas, models, and conditions of one's business activity. It is obvious that this also contains know-how including scientific know-how.

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 that are worth mentioning.

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.

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But a license agreement may be invoked against a third party who acquired his rights in good faith and for a consideration only if it is recorded in the Patent Register (Article 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 consider them freely. Furthermore, the parties are absolutely free to agree to exclusive or nonexclusive licenses (Article 18(1) of P.A.).

Compulsory License

A Hungarian patent is subject to compulsory licensing within three years from the date of the grant of the patent or within four years from the date of filing (whichever is the longer) if there is a failure to working the patent in Hungary, or the patentee has not undertaken serious preparations or has refused to grant a license. Any organization or person having a right to exercise business activities in Hungary may apply for a compulsory license at the Court (Article 11).

On the other hand, a compulsory license may also be granted in the case of dependent patents, if a patent cannot be used without infringing another patent (Article 12).

It is to be noted that compulsory licenses are always nonexclusive 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 license may not grant sub-license (Article 13).

Royalty Rate

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 a 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 ordered.

It is to be noted that a "no-challenge clause" in a license agreement

would be against Article 21 (P.A.). According to the statute, "anybody" has a right to file a request for invalidation of a patent. So, of course, a licensee also has a right to start revocation proceedings in the case of a licensed patent. It should be done in the public interest.

Infringement — Revocation

In the case of a patent infringement, the licensee included 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 (Article 21(b) 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 (Article 21 of P.A.).

Assessments To Be Expected

Under the influence of international harmonization the current Hungarian Patent Law will be amended. This harmonization is also motivated by the fact that Hungary is going to join the European Patent Convention before 1991. In 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.
- A "Grace period" of six months will be introduced.
- The statutory requirements of patentability will be merely: inventive step and industrial applicability.

LIMITATIONS TO LICENSE AGREEMENTS

The Competition Act (E.C.A.) deals with the prohibitions of unfair

market behavior (discouraging consumers, agreements to limit economic activity; cartels, abusing superior economic power), and contains limitations to license agreements. A few are very important in prohibition clauses.

Package License

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

Royalty Calculated by Price Including Non-Patented Products

An obligation for payment of royalty under nonpatented products is likely to be considered unfair practice under Section 22 of the U.C.A., if a 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.

Obligations in the Non-Patented Raw Materials of the Licensee

The so-called "clean" 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 the U.C.A. prohibits in general the concerted sale and linked buying.

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

Effect of Expiry 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.

Obligation to Use Trademark Designated by Licensee

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 licensee should guarantee — for the duration of the agreement — that third parties have not had any rights that would prevent or limit its exploitation.

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, for example,

Swiss, German or Austrian substantive law, too.

Arbitration Clause

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

MIXED LICENSES

In mixed licenses, when patent and secret know-how are treated in a common license agreement, special care is needed.

There is not any direct restriction

in the Hungarian law in this respect. From a drafting point of view it is advisable to set forth explicit provisions with respect to the termination in equity 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 a practical viewpoint it seems to be wise to treat trade secret (know-how) and patent rights in separate agreements, which should be coordinated with each other.

It may be concluded that the present guiding laws and regulations in Hungary can fulfill their intended function. The licensor and licensee have strong enforceable legal means.