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in the name of the Hungarian Group
by Arpad PETHO, András ANTALFFY–ZSIROS, István GÖDÖLLE,
Zsófia LENDVAI and Eszter SZAKACS

The Impact of Co-ownership of Intellectual Property Rights on their Exploitation

Discussion and Questions

I) Analysis of the current substantive law

1) The regulation of co-ownership may depend on the origin of co-ownership.

It may be considered that, in case the object of an intellectual right (esthetical, technical or commercial) is jointly created by two or more persons, the rules applicable to such a situation may be different from those applicable in the situation when the co-ownership results from the division of the same right among different persons as the consequence, for example, of heritage or a division of a company.

Also, there may be the situations where the co-ownership is imposed in fact by one party on the other in case of some technical creation (for example in case of the improvement or modification of the previous creations which not always may result in the independent right).

Therefore, the groups are invited to indicate if, in their national laws, the rules related to the co-ownership of IP Rights make any distinction in the applicable rules to the co-ownership of an IP Right in case the origin of the co-ownership rights is not voluntary but results from other situations, including the division of a right in case of a heritage.

Patent, utility model, design, trademark and geographical indication: None of the respective Hungarian acts declare any distinction in the applicable rules to the co-ownership of an IP right depending on the origin of the co-ownership.

Copyright: If a work has been created by several authors, the co-authors shall be entitled to copyright protection jointly. The authors are entitled to the whole copyright – moral and economic rights – from the time the work is created. With the exceptions stipulated definitely in the law, neither moral nor economic rights can be assigned. Said rights, however, can be inherited, whereby the heir becomes entitled to the same rights as the original co-author.

In this context the Groups may also indicate if there are any legal definitions of co-ownership of the IP Rights adopted in their countries and what these definitions are.

There are no special legal definitions of co-ownership of IP rights in IP laws. Thus, the following general provision of Art. 139(1) of the Civil Code apply: "Ownership of the same thing, by specific shares, can belong to two or more persons."

Of course, such shares are undivided.

2) A large debate, during the Singapore ExCo, took place with regard to the notion of the exploitation of an IP right.

More specifically, the groups were highly divided on the issue of outsourcing or subcontracting the exploitation of an IP right.

This question, particularly important in case of patents, relates particularly to the problem of subcontracting when a co-owner of the patent who, in principle, and at least according to the position expressed by AIPPI in its 2007 Singapore Resolution, has the personal right to exploit his own part of the patent, specifically by manufacturing and selling the goods or processes covered by the patent, needs to subcontract partially or totally the manufacturing of the product covered by the patent.

No common position could be achieved by the Singapore ExCo in 2007 on the question if the right to exploit the patent should also cover the right to subcontract, specifically the manufacturing of all or part of the invention being the subject matter of the patent.

Therefore, the groups are invited to present the solutions of their national laws on this specific point.

Patent, utility model and design: The Hungarian Patent Act of 1995 allows each co-owner to exploit the entire patent individually, without the consent of the other co-owner(s), subject to an obligation of paying proportionate royalty to the other co-owner(s) (Article 26, paragraph 2). It is also stipulated in this article that licenses to third parties shall be granted by the co-owners jointly. The consent of a non-cooperative co-owner may be substituted by a judgment of the court under the general provisions of the civil law (Article 26, paragraph 3).

The Patent Act, however, remains silent on the interpretation of the right of individual exploitation and gives no explanation whether this right includes the right of outsourcing and/or subcontracting or whether it is limited to exploitation by the co-owner within its own capacity. We are not aware of any case law in Hungary concerning this specific issue.

An interpretation can be found in the Ministerial Motivation to the former Patent Act of 1969 in which the provisions concerning co-ownership of patents and exploitation of such patents were almost identical with those of the present Patent Act. According to this "the co-owner of a patent may exploit the patent individually, *if he is in possession of the conditions needed to perform exploitation*". Because of this interpretation, we believe that the legislative intention behind this provision was to give the right of individual exploitation to each co-owner only within their own capacity, excluding the possibility of subcontracting.

However, based on this it seems that the Patent Act does not exclude to make subcontracts within the framework of own exploitation if the activity performed by the subcontractor does not itself qualify as the exploitation of the concerned patent, e.g. the subcontractor makes and supplies only some parts, even an essential element, of the patented device. Otherwise, if the co-owner (together with its subcontractors) cannot perform the exploitation of the invention within its own capacity and wishes to outsource, it shall be done in the form of a license agreement, which shall be agreed by each co-owner. In case another co-owner rejects to give his consent in an unjustified way, the co-owner wishing to outsource the exploitation may sue the reluctant co-owner before the competent court.

3) The working guidelines established for the Singapore ExCo contained also the question related to the possibility of the co-owner of an IP right to licence this right to third parties.

No distinction was, however, made in this context between a non-exclusive and an exclusive licence.

No differentiation was also made on the number of licences which could be given by one co-owner in case the non-exclusive licence would be permitted by the national law.

And if AIPPI adopted a resolution on the conditions of granting the licence, it also appeared during the discussion at the ExCo that some different or more precise solutions could have

been obtained if the Working Committee had made a distinction between the nature of the licence.

Therefore, in order to improve the work of the ExCo, the groups are invited to specify how the differences in the nature of licenses (non-exclusive or exclusive) influence the solution of their national laws in respect of the right to grant the licence by a co-owner of an IP Right.

Patent, utility model and design: The provisions of Art. 26(3) of the Patent Act that an exploitation license may only be granted to a third party jointly by the co-owners of a patent relates to both non-exclusive and exclusive licenses. Furthermore, there is no differentiation in said provision according to the number of licenses which could be given in case of non-exclusive licenses which are permitted by the Hungarian law.

Trademark: The provisions of Art. 21(3) of the Trademark Act for a trademark license are the same as those for a patent exploitation license discussed above. Therefore, there are no differentiation concerning the type of the license or the number of non-exclusive licenses.

Copyright: According to Art. 5(1) of the Copyright Act, the exploitation rights of commonly created works can only be exercised by the co-authors jointly. There is no difference according to the exclusive or non-exclusive character of the license agreement or the number of non-exclusive licenses.

Geographical indication: The rights to a geographical indication cannot be licensed.

4) One of the most difficult questions which appeared during the discussion at the Singapore ExCo was the possibility to transfer or assign a co-owned share of an IP right.

And the problem seemed so complicated that finally the Working Committee decided to withdraw its proposal for a resolution on this point.

In fact, the discussion showed that the solutions concerning the right to transfer or assign may vary since there is a huge variety of situations related to the transfers of the co-owned share.

Notably, one could imagine that the transfer is operated on the whole share of the co-owned IP right, but it also could be simply an assignment of a part of the co-owned share, creating therefore an additional co-owner of an IP right.

And such transfer of a part of a share of an IP Right could be used to overcome the limitation which could exist on the granting of licences by the co-owners.

The Groups are therefore invited to precise their position on the question of the transfer or assignment of a share of the co-owned IP Right, taking into the consideration the different situations which may occur (the transfer of the whole share of a co-owned IP Right or the transfer only of the part of the share of the co-owned IP Right).

Patent, utility model and design: According to Art. 26(1) of the Patent Act each of the co-owners of a patent can dispose of his own share of the patent. The right of disposal includes the right to transfer or assign. However, in this case the other co-owners shall have a pre-emption right with respect to third parties.

There is no express provision on a partial transfer or assignment of a share of a patent. We think that according to the provisions of the Civil Code concerning property rights, the right of disposal encompasses the right of a partial disposal as well. Of course, also in this case there is a right of pre-emption for the co-owners of the patent.

By exercising the right of pre-emption a co-owner or any of the co-owners may prevent an unwanted partial transfer which would be used to overcome the limitation concerning granting of a license by the co-owners jointly.

Trademark: The respective provisions are the same as for patents.

Copyright: A copyright cannot be assigned according to the Hungarian law.

Geographical indication: Theoretically, it is possible to assign a co-owned share of a right to a geographical indication to any person who would be entitled to the protection. However, such an assignment has no effect to the group of persons who are entitled by the law to use the geographical indication.

5) The exercise of an IP right co-owned by two or more co-owners each of whom has in principle the right to exploit the co-owned right, may also raise difficulties from the point of view of competition rules.

The co-owned IP Rights may give the co-owners the dominant position on the market and their agreement on the co-owned IP Rights (when for example it prohibits the licensing) may also be seen as eliminating the competitors from the market.

The groups are therefore invited to explain if their national laws had to treat such situations and what were the solutions adopted in those cases.

Patent, utility model and design: In case the exercise of a co-owned patent, utility model or design right by the co-owners occurs in such a way that would be in line with the competition rules if there would be one single right owner, we think the exercise cannot be against the competition rules just because of the plurality of the right owners.

If, however, two or more co-owners conclude an agreement on the exploitation of the co-owned right, e.g. on manufacturing and/or distributing the product according to the invention, their agreement on such exploitation may violate prohibitions of the competition law.

In the Hungarian Unfair Competition Act there is a provision in Art. 11(1) that the prohibitions on agreements restricting competition cannot be applied for agreements between non-independent undertakings. According to Art. 15 of that Act, in case of enterprises belonging to the same concern, or where an enterprise is controlled by another enterprise, such enterprises shall be deemed not independent.

We think undertakings being co-owners of IP rights cannot be regarded as non-independent in the sense of the competition law for the sole reason of co-ownership in IP rights. Therefore, in such agreements the competition rules shall be observed, similarly to agreements of parties in a patent pool.

Trademark and Copyright: We think the same principles apply as for patents, utility models and designs.

Geographical indication: Legal usage of a commonly owned geographical indication can not result in a situation that could be considered as an illegal restriction of the competition because geographical indications, when used legally, simply indicate the geographical origin and the specific quality connected thereto of the commercialized goods and, therefore, can not give rise to any illegal restriction of competition. Furthermore, geographical indications can not be licensed.

6) The groups are invited to investigate once more the question of the applicable law that could be used to govern the co-ownership of various rights coexisting in different countries.

This point was left for further study by the paragraph 9 of the resolution adopted in Singapore.

And more specifically the Groups are requested to indicate if their national laws accept that the co-ownership of an IP Right, even if there is no contractual agreement between the co-owners, may be ruled by the national law of the country which presents the closest connections with the IP Right.

If this is the case, what in the opinion of the Groups would then be the elements to take into the consideration to assess this connection?

The Groups of the EU Countries are in this context asked to indicate if they consider that Council Regulation of June 17, 2008 (No 593/2008), so called "Rome I" may be applicable to the Co-Ownership agreements.

In case the co-owners did not make a choice of law, according to Hungarian international private law, the applicable law will be the law of the state where the IP right is registered or in the case of copyright where the protection is claimed. In these matters the term "closest connection" is unknown in the Hungarian law.

We think "Rome I" will be applicable to agreements concerning co-ownership of IP rights concluded after 17 December 2009.

7) Finally, the groups are also invited to present all other issues which appear to be relevant to the question and which were not discussed neither in these working guidelines, nor in the previous ones for the 2007 ExCo in Singapore.

II) Proposal for the future harmonisation

The groups are invited to present any recommendation that can be followed in the view of the further harmonisation of national laws in the context of co-ownership, specifically on the points raised by the working guidelines above in relation to the current state of their national laws.

With respect to above paragraph 2), where in many legislations the co-owner of a patent may only exploit the invention within it "own capacity" we submit that it would be very welcome if some harmonized definition would be available in the IP law on the term "own capacity" because the present situation with respect to subcontracting in the framework of "own" exploitation is somewhat ambiguous in lack of said clear-cut definition.

Summary

In Hungary, the regulation of co-ownership does not at all depend on the origin of co-ownership.

The Patent Act does not exclude subcontracting within the framework of own exploitation if the activity performed by the subcontractor does not itself constitute the exploitation of the patent concerned. Otherwise, if the co-owner cannot perform the exploitation of the invention within its own capacity and wishes to outsource, it shall be done in the form of a license agreement, which shall be agreed by each co-owner.

The provisions of the Patent Act do not differentiate between non-exclusive and exclusive licenses concerning the right to grant a license by a co-owner of an IP right.

There are no express provisions on a partial transfer or assignment of a share of an IP right. In accordance with the Civil Code concerning property rights, the right of disposal should also encompass the right of a partial disposal.

Agreements on exercising of co-owned IP rights between the co-owners of such rights may violate prohibitions of the competition law.

When the co-ownership of various IP rights coexists in different countries, the applicable law will be the law where the IP right is registered or in the case of copyright where the protection is claimed. In these matters the term "closest connection" is unknown in the Hungarian law.

Résumé

En Hongrie la régulation de la copropriété ne dépend pas de tout de l'origine de la copropriété.

La loi sur les brevets d'invention n'exclut pas les contrats de sous-traitance dans le cadre de l'exploitation par soi-même si l'activité exercée par le sous-traitant ne représente pas elle-même l'exploitation du brevet concerné. Autrement si l'un des copropriétaires ne peut pas exploiter l'invention dans le cadre de sa capacité et souhaite la sous-traiter, il pourra faire un contrat de licence mais le consentement de tous les copropriétaires est nécessaire.

La législation sur les brevets ne fait pas la différence entre une licence exclusive et non-exclusive en ce qui concerne l'octroi par l'un des copropriétaires d'une licence sur un droit de propriété intellectuelle (PI).

Il n'y a pas de dispositions spéciales concernant le transfert ou la cession partiels de la quote-part d'un droit de PI. En accord avec le Code civil concernant les droits de propriété en général, le droit à disposer devrait comprendre aussi le droit à disposer partiellement.

Un contrat sur l'exercice d'un droit de propriété intellectuelle en copropriété entre différents opérateurs du marché qui sont les copropriétaires peut faire l'objet d'un contrôle à l'égard du droit de la concurrence.

Au cas où la copropriété de droits variés de PI se trouverait dans des pays différents, la loi à appliquer sera la loi du pays où le droit de PI a été enregistré ou bien dans le cas du copyright où la protection est revendiquée. A ce sujet le principe des "liens les plus étroits" est inconnu dans la loi hongroise.

Zusammenfassung

In Ungarn hängen die Mitinhaberschaft betreffenden gesetzlichen Regelungen überhaupt nicht von dem Ursprung der Mitinhaberschaft ab.

Das Patentgesetz schliesst Subverträge im Rahmen der eigenen Nutzung nicht aus, wenn die von dem Subunternehmer vorgenommene Tätigkeit an sich nicht die Nutzung des betreffenden Patentes darstellt. Andererseits, wenn der Mitinhaber die Nutzung der Erfindung in seinem eigenen Tätigkeitskreis nicht vornehmen kann und auslagern möchte, so muss dies in Form einer Lizenzvereinbarung erfolgen, welcher von jedem Mitinhaber zugestimmt werden muss.

Die Regelungen des Patentgesetzes machen keinen Unterschied zwischen ausschliessliche und nicht ausschliessliche Lizenzen in Hinsicht auf das Recht zur Erteilung einer Lizenz durch einen Mitinhaber eines Rechtes des Geistigen Eigentums.

Es bestehen keine ausdrücklichen Vorschriften bezüglich einer partiellen Rechtsnachfolge oder Übertragung eines Anteils eines Rechtes des Geistigen Eigentums. Gemäss den das Eigentumsrecht regelnden Vorschriften des Zivilrechts sollte das Recht der Veräusserung ebenso das Recht einer partiellen Veräusserung umfassen.

Vereinbarungen über Verwertung zwischen Unternehmen, die Mitinhaber an Rechten des Geistigen Eigentums sind, können die wettbewerbrechtlichen Vorschriften verletzen.

Wenn die Mitinhaberschaft an verschiedenen Rechten des Geistigen Eigentums in verschiedenen Ländern koexistiert, so wird das anzuwendende Recht das Recht sein, unter welchem das jeweilige Recht des Geistigen Eigentums registriert ist oder im Falle des Urheberrechtes, wo der Schutz beansprucht wurde. In diesen Angelegenheiten ist die Formulierung „engster Zusammenhang" in dem ungarischen Recht unbekannt.