

LIDC 2009 - QUESTION B:

What are the criteria that determine the unfairness of so-called “look-alikes”; what are the prohibitions and the appropriate sanctions?

Hungarian national report

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1. SCOPE OF PROTECTION

a) Direct protection of the manufacturer (distributor, importer)

Section 6 of *Act LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices* (hereinafter “**Competition Act**”) protects manufacturers, service suppliers and the distributors and importers of goods by allowing for the possibility of legal redress against the producers and distributors of imitation products, irrespective of whether or not the product in question or its appearance is protected by intellectual property law.

According to section 6 of the Competition Act, “*it shall be prohibited to manufacture, distribute or advertise goods and services (hereinafter together: “**goods**”) without the consent of competitors if such goods have a characteristic presentation, packaging or labelling (including designation of origin), or to use a name, mark or designation, by which a competitor or its goods are usually recognised*”. (hereinafter this rule is referred to in the report as “passing-off”).

Protection can be applied if the following criteria are met:

- (i) the imitation (as defined by section 6 of the Competition Act) is carried out by a competitor of the manufacturer or distributor,
- (ii) the manufacturer (distributor or importer) or the product affected by the imitation are known in the market, and
- (iii) the degree of similarity is such that there is a real risk that consumers may be confused as to which product to choose.

Case-law may be helpful in the interpretation of these conditions.

When examining the level of familiarity with the products concerned, which is necessary to meet the condition in point (ii) above, the courts will also take into consideration which competitor (or its legal predecessor) appeared earlier on the market (court decision nos. BH 1997. 407 and BH 1997. 353). According to the recent judicial practice, a precondition of familiarity with a given

product is that the product should have certain characteristics (in appearance, design or technical features) on the basis of which it can be distinguished from other products (court decision no. BH 1994. 124). Furthermore, the condition is met if consumers recognize the competitor's product by its appearance or designation and associate the imitation with the original manufacturer or supplier (court decision no. BH 2004. 480).

The fulfilment of the condition relating to risk of confusion mentioned in point (iii) above is usually determined by the court, referring to the life experience of the judge. In some cases, the decision is based on expert opinion (court decision no. BH 1997. 407) or public surveys, however, the judge is not obliged to rely on such evidence nor is bound by the result of the expert opinion. Additional aspects taken into consideration include the products' physical location within the commercial premises where they are sold (in particular, whether the consumers are able to examine the product closely), or the fact that consumers usually arrive at decisions quickly when purchasing food items. The court then evaluates the average customer's familiarity with the products in question, her shopping habits and the overall impression of the product on the customer (court decision nos. BH 1995. 394 and 14.Gf.40.260/2005/4). "Average" here refers to customers without specialised knowledge about the product. As far as the fulfilment of the condition set forth in point (iii) is concerned, it is not necessary that customers actually confuse the products; nor is it required that imitation should be carried out in order to enhance product sales, or that the competitor's sales volume should actually increase.

Protection is provided irrespective of product quality, since the main reason for the prohibition is to protect against tarnishing the competitor's reputation and against unlawfully appropriating the results of investments related to goodwill. The distributors of characteristic products are entitled to protection against the manufacturers (distributors, importers) of products that are so similar that they can be easily confused with the original products, even if the product in question was conceived or created by another party but was made well-known on the market by the distributor (court decision no. EBH 2003. 861).

Section 6 of the Competition Act can be violated by the production, distribution or advertising of the product and by the use of a specific name or product designation. These activities will only qualify as unlawful imitation (passing off) if such goods have a characteristic presentation, packaging or labelling by which a competitor or its goods are usually recognised. The above practices are prohibited either separately or in combination with one another.

b) Indirect protection of the manufacturer (distributor, importer)

In order to protect manufacturers (distributors or importers), criminal penalties may also be imposed against the manufacturers (distributors or importers) of counterfeit goods (see section 2). In the course of criminal proceedings instituted for crimes related to the deceptive designation or appearance of a product in accordance with section 296 of the *Act IV of 1978 on the Criminal Code* (hereinafter "**Criminal Code**"), the manufacturer (distributor or importer) as the injured party may also be entitled to bring civil action (see section 2.1.c).

Prior to 1 September 2008, chapter III (sections 8-10) of the Competition Act prohibited the unfair manipulation of business decisions as they affect consumers, while from 1 September 2008, it prohibits the same behaviour as it affects trading parties. More specifically, section 8 (2) (a) stipulates that deception/misleading will be presumed, in particular, if false declarations are made or facts are declared in a manner which is likely to deceive regarding prices or essential features of the goods, or if the designation of goods is likely to deceive.

According to section 3 (1) of *Act XLVII of 2008 on the Prohibition of Unfair Business-to-Consumer Commercial Practices* (hereinafter “**Unfair Commercial Practices Act**”)¹, unfair commercial practices are prohibited. Section 3 (3) of the Unfair Commercial Practices Act specifically prohibits commercial practices that are unfair, deceptive (sections 6-7) or aggressive (section 8). Furthermore, in accordance with section 3 (4), commercial practices specified (blacklisted) in the appendix will be deemed unfair. It is important to note that point 13 of the blacklist expressly prohibits the advertising of goods that are similar to the goods manufactured by a given enterprise in a wilfully deceptive manner, which misleads the consumer into thinking that, contrary to the actual facts, the product in question was manufactured by the same enterprise (the manufacturer of the original product). In the case of blacklisted activities, the authorities will not deliberate the circumstances; instead, they will objectively consider the facts of the case to determine if the practices were unfair. In such cases, therefore, a negative effect on competition will be assumed. Considering that the competent authorities may order that the infringement cease, or may prohibit the parties concerned from carrying on activities that give rise to such infringement, the prohibition stipulated in the Unfair Commercial Practices Act also indirectly protects the interests of the manufacturer (distributor, importer) through the protection of consumers’ rights and fair competition.

The filing of complaints under the Unfair Commercial Practices Act is especially important if the party using deceptive product designation is not a competitor of the manufacturer (distributor, importer) concerned, so no action may be brought on the basis of section 6 of the Competition Act.

Certain sectoral provisions have the same effect. For example, section 6 (2) of *Joint Regulation No 19/2004. (II. 26.) FVM-ESZCSM-GKM on the labelling of food products* stipulates that “*food products must be labelled in such a way that allows one to distinguish between those products and similar products with which such products may be confused*”. Similarly, under sections 14-15 of *Act II of 1986 on the Press*, “*the granting of permits or registration will be denied if the press publication in question [...] is published with a title, appearance, graphical layout or features that are similar to those of another publication that has already been registered, if such an appearance or features are likely to deceive consumers*”. Under the same provisions, “*periodical print publications will be struck off from the registry if registration is unwarranted and should be denied*”.

¹ Unfair Commercial Practices Act is the legislation implementing the UCP Directive in Hungary.

May the protection granted by unfair competition be used:

a. Complementary to a counterfeiting action?

b. Substitutive to a counterfeiting action?

As opposed to the protection of intellectual property rights, which constitutes an *absolute* legal relationship, competition law protection has a *relative* effect, which means that it can be applied only to competitors. Furthermore, in order to establish that an unlawful imitation of product features has taken place, the claimant may be required to provide additional proof. Therefore, enforcement of claims via the means of competition law will be deemed secondary compared to the claims provided by intellectual property rights. However, the relevant provisions stipulate that, if a given product is subject to intellectual property rights, proceedings may be initiated on two legal grounds (intellectual property rights and competition law).

Claimants are not precluded, under Hungarian law, from asserting claims simultaneously on two separate legal grounds, trademark infringement and unfair market practices (passing-off). This often happens in practice as well. However, we emphasize that competition law claims are secondary to claims based on industrial property rights (e.g., trademark) and, accordingly, the remedies available under IP right protection are primarily applied. This is because "unfair competition law" and "trademark law" are in the relationship of general versus specific rules, in which case the specific law should be applied.

The enforcement of claims on the basis of competition law is more feasible if the product in question is not subject to intellectual property rights in Hungary, or the protection has already expired. For a specific product, the enforcement of claims based on both intellectual property rights and competition law is reasonable if the product in question contains parts that are not subject to intellectual property protection, or if the unlawful imitation of product features is committed in a way that the technical features of the imitation products have been altered to such an extent that the alleged patent infringement can no longer be ascertained, while on the basis of the appearance (packaging) of the imitation products the fact of imitation can still be established (court decision no. BH 1995. 20).

As far as the manufacturer is concerned, the filing of complaints to competent authorities (Hungarian Competition Authority, National Consumer Protection Authority, Hungarian Financial Supervisory Authority) citing misleading of consumers and violation of chapter III of the Competition Act and the relevant provisions of the Unfair Commercial Practices Act, may prove to be an alternative solution, since the authorities will assess the overall effect on the trading parties or consumers. However, the ensuing decision may also be suitable for confirming the plaintiff's position in court proceedings and may result in the issuing of an order prohibiting the defendant from proceeding with the activities that give rise to the infringement.

On the basis of paragraph 13 of the preamble to *Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights*, the possible legal sanctions to be applied in the case of infringement of intellectual

property rights will also be extended, from 1 June 2009, to cases described in section 6 of the Competition Act, which means that the claims enforceable by the claimant during court proceedings related to unlawful imitation will practically be the same as the claims enforceable under intellectual property rights.

1.2. What claims can be asserted?

In the event of breach of Section 6 of the Competition Act, the injured party may turn to court with the following civil law claims:

- a) establishment of the fact that infringement has occurred,
- b) termination of the violation and the prohibition of continued violation by the offender,
- c) that the offender make amends - through making an announcement or in some other appropriate manner - and, if necessary, that sufficient publicity be given to such an announcement by the offender or at its cost,
- d) termination of the infringing state of affairs, restitution of the situation preceding the infringement, and depriving the goods produced or distributed in an infringing manner of their infringing features or, where this is not possible, destruction of such goods, as well as the destruction of any special facilities used for the production of such goods,
- e) **compensation of damages** other than the financial profit achieved by the infringer in case of culpable infringement under the Civil Code, and
- f) that the offender supply information about the persons who participated in the production and distribution of the goods concerned by the infringement and about the business relations created for the dissemination of such goods.

Further, as of 1 September 2009, the interested party may also demand:

- g) in relation to those assets and materials used exclusively or primarily in the infringement, seizure, the delivery thereof to a particular person, the recall and the definite **withdrawal thereof from commercial circulation, or destruction;**
- h) **recovery of economic profits** achieved through the infringement; and

Sanctions set forth under a)-d) and f)-h) shall be applied on an objective basis (strict liability), even where there is no actual fault (culpability) of the infringing party.

1.3. Can the unfair nature of the commercialisation of similar products be limited by freedom of trade and industry?

In accordance with Decision No 30/1992. (V. 26.) of the Constitutional Court, the state may restrict fundamental rights laid down in the Constitution if the protection of another such fundamental right cannot be guaranteed by any other means. Furthermore, the constitutionality of restricting fundamental rights cannot be justified solely by claiming that the right in question has

to be restricted in order to ensure the protection of another fundamental right, freedom or constitutional objective, but the requirements of proportionality shall also be observed. In its decision, the Constitutional Court also ruled that the state's obligation to protect fundamental constitutional rights involves more than refraining from violating them: such an obligation also implies that the conditions necessary for enforcing these rights must also be ensured and that these rights are to be treated in the context of all the other fundamental rights, while also taking into account real-life situations.

When assessing the interaction between free trade and the protection of fair competition, the most important issue to consider from the perspective of competition law is the public interest vested in keeping economic competition undistorted. Therefore, the interests of competitors and consumers should be inserted into that framework (see references to relevant legislation cited above and the case law detailed further below), while it should also be clearly determined whether the practices in question could influence the economic decisions of trading parties or consumers in such a way that might lead to the distortion of competition.

Considering that, when compared to claims based on intellectual property rights, the enforcement of claims based on competition law requires the fulfilment of additional conditions, the scope of relative protection provided under competition law is much more restricted (see the conditions set forth in point 1.1). With regard to the protection of fair competition, the legislator did not deem it necessary to incorporate controls into the relevant legislation as they did in the case of exhaustion of rights in respect of intellectual property, which ensures free trade by easing the territorial restrictions on exclusive protection.

If we look at this issue from the opposite perspective and examine the impact of freedom of trade on the protection of fair competition, it can be concluded that the conditions for enforcing claims based on competition law have been laid down in a way that ensures free trade for the long term.

2. The Nature of the action

2.1 The action which tends to object to the commercialization of the copies is a civil, criminal or administrative one?

It is possible to initiate proceedings by each of the above legal means. In this section of our letter we will introduce the various forms of legal proceedings available, and we will analyse specific sanctions, in line with certain evidence issues related to subsection (a) in section 5 below.

(a) Enforcing claims under civil law

In a court procedure under section 6 of the Competition Act, the injured party also has the opportunity to claim damages under section 339 (1) of *Act IV of 1959 on the Civil Code* (hereinafter "**Civil Code**").

In addition to administrative proceedings, section 88/A of the Competition Act allows civil claims to be made directly in the case of market practices that violate competition regulations. Consequently, an entity violating competition regulations will not be able to claim that it is held liable more than once if *Gazdasági Versenyhivatal* (the Hungarian Competition Authority, hereinafter “**GVH**”) imposes a penalty and the business partner that has suffered damage or that has been misled also enforces a claim for damages under civil law against this entity.

As the civil law regulations do not include an exhaustive list of specific types of conduct that cause damage, but instead they declare that all acts resulting in damage are illegal in principle, there is a possibility of enforcing claims for damages under civil law for damage caused by practices that violate the Unfair Commercial Practices Act rules listed in section 1.1 (b) above if the authority establishes that the rules have been violated.

According to the Civil Code, four conditions need to be met simultaneously when damages are claimed: (i) there must be some illegal conduct, (ii) there must be damage suffered, (iii) there must be causality between the illegal conduct and the damage suffered, and (iv) the person causing the damage must be responsible for the conduct (culpability). The conduct is illegal if the court finds that it violates section 6 of the Competition Act. If the illegal conduct causes damage to the competitor, the competitor may claim damages for this from the entity violating the applicable regulations. It is the competitor suffering damage (the plaintiff) that must prove that the applicable regulations have been violated, that it has suffered damage and that there is causation between the illegal conduct and the damage suffered. If the plaintiff is successful in proving all of the above, it is presumed by law that the plaintiff is entitled to be paid damages; however, the defendant may be excused from liability if it can prove that its violation of competition law was neither intentional nor negligent.

In addition to the awarding of damages, there are also sanctions the plaintiff may request be imposed on the defendant if the defendant violates section 6 of the Competition Act. Thus, the plaintiff may request the court to establish that the laws have been violated, it may ask the court to prohibit the defendant from committing further violations and require the person responsible for the violation to make amends publicly and in an appropriate manner, and order the statement to be published at the violator's cost. By request, the court may also order the person responsible for the violation to redress the situation and it may order restitution. Finally, it may order the conversion of the goods produced as a result of the violation and already in circulation or not distributed yet if the conversion ensures that they no longer violate the law; or, if conversion is not possible, the court may order the destruction of such goods. The court may order the destruction of the equipment used for producing the goods in question in addition to the destruction of the goods. Please note that not all such equipment may be destroyed but only those that may only be used for producing goods that violate the law. The plaintiff may also request the court to oblige the defendant to disclose data on those who participate in producing and distributing the goods, and on the business relationships established for the purpose of circulating the goods.

As of 1 June 2009 (see the last paragraph of point c) at subsection 1.1), the plaintiff may claim the enrichment the infringing party has gained as a result of the infringement, it may ask the court to seize the infringing goods and the equipment and materials used for the infringement and to hand these over to a person or persons specified by the plaintiff, to withdraw them from commercial circulation (temporarily or for good), and to order their destruction. The court may also order the publishing of the court decision at the infringing party's cost.

(b) Administrative proceedings

It is the task of the *Gazdasági Versenyhivatal* (the Hungarian Competition Authority, hereinafter “**GVH**”) to determine whether a given conduct violates the provisions in chapter III of the Competition Act (unfair influencing of business partners).

If the regulations in the Unfair Commercial Practices Act specified in section 1.1 (b) are violated and if competition is materially affected by the violation, GVH has competence to rule the case (since 1 September 2008), in cooperation with the National Consumer Protection Authority – hereinafter “**NFH**” – and the Hungarian Financial Supervisory Authority – hereinafter “**PSZÁF**” – for examining complaints and reported cases of unfair commercial practices against consumers and for conducting ex officio competition supervision proceedings. (Please note that the determination of a violation under section 6 of the Competition Act, as described above in section 1.1 (a), falls within the competence of the courts and not of GVH.)

The Unfair Commercial Practices Act defines the primary factors that need to be considered when deciding whether competition is materially affected (with regard to the special nature of the market affected by the violation). These factors include the net revenue of the undertaking responsible for the violation, the extent of the practice, with special regard to the type of communication method used, the size of the geographical area affected by the violation, the number of shops affected by the violation, the duration of the violation and the quantity of the affected products. The competition is automatically considered materially affected regardless of any other factors if the violation is committed through a broadcaster with national coverage, through a periodical of national distribution, or through a daily distributed in at least three counties, or if the commercial practice based on direct marketing methods affects consumers in at least three counties, or if a commercial practice for promotional purposes at the location of the sale is organised in at least three counties.

Even if the commercial practice has the ability to materially affect competition, it is not GVH but NFH that examines the case if the unfair commercial practice only affects the appearance or the packaging of the product, or if the unfair commercial practice appears in a form that is physically connected to the product. It is an exception to this rule when the unfair commercial practice on the label is also engaged in through another method of communication; in the case of this latter commercial practice, GVH is responsible for conducting an investigation due to the fact that competition is affected, as in this case GVH will decide on the violation related to the commercial practice on the label. As the competence regulations are quite complex, the relevant

statute requires the competent authorities to cooperate, and they are obliged to conclude an agreement on the conditions of their cooperation. These cooperation agreements must be publicly accessible.

(c) Criminal proceedings

The ‘False Marking of Goods’ (“*the production of a product with such distinctive appearance, packaging, labelling or name based on which a competitor or its product having distinctive features can be recognised, if the person producing the product does so without the consent of the competitor; the acquisition, possessing of such a product for the purpose of market distribution and the actual distribution of such products*”) is a crime under section 296 of the Criminal Code and qualifies as an offence under section 71 of *Government Decree 218/1999 (XII. 18.) on Offences*.

Similar to other economic crimes, the protected legal interest is the uninterrupted operation of the economy and the fairness of market behaviour (the latter includes the protection of the fairness of competition and the protection of competitors’ and consumers’ interests). The definitions of the crime and the offence are the same; the question whether the conduct is considered a crime or an offence is decided by the value involved. The conduct is considered an offence if the value involved is lower or equal to HUF 100,000 (appr. 350 EUR). Above HUF 100,000, the conduct is considered a crime. From this point ahead, we will use the term ‘crime’ to describe the conduct defined above. However, please note that the description below applies to offences as well, with respective differences taken into consideration.

The criminal conduct under the crime “False Marking of Goods” includes the acquisition and the possession of falsely marked goods. According to criminal law practice, “distribution” may refer to any wilful conduct that results in the circulation of the goods. Therefore, it appears that from this aspect the crime covers a wider range of conduct than the conduct specified in the Competition Act.

As the “False Marking of Products” is a crime that is defined in the Criminal Code without reference to any other statute, the elements of the statutory definition in the Criminal Code and not in the Competition Act, nor in any other sectoral legislation, should be used to establish whether the crime has been committed (court decision number: BH 1999. 7). If the elements of the two crimes are proven, the same conduct may actually result in two crimes: the false marking of goods *and* the violation of industrial property rights.

Under section 54 of *Act XIX of 1998 on the Criminal Procedure Code* (hereinafter “**Criminal Procedure Code**”), a claim under civil law related to the crime may be enforced in a criminal procedure; this means that a claim made by the victim of the crime (or any other injured party) may be adjudged at the same time the court makes a decision on criminal liability. Civil law rules apply regarding the legal basis and the amounts of a civil law claim enforced in criminal proceedings, similarly to the damage claim made under section 86 (2) (e) of the Competition Act.

2.2 Is it an effective action? Is it a source of a significant number of decisions in your country?

(a) Enforcing claims under civil law

Referring to the slow court proceedings and the ambiguous pattern of court practice, it is commonly held amongst market players that, in general, civil court proceedings are not as efficient a method of enforcing claims they could be.

There a significant number of decisions in Hungary based on violation of Section 6 of the Competition Act.

The provisional measures may enhance the efficiency of these procedures. As of September 2009, the court shall render an interim injunction within 15 days after filing the request, similarly to IP infringement proceedings.

(b) Administrative proceedings

If we consider the relatively low costs as one of the factors when the efficiency of a procedure is evaluated, the following factors may be used when determining the efficiency of administrative proceedings (in contrast with civil and criminal proceedings):

(i) Procedural costs

No procedural fees are payable when the complaint is made to GVH or when a case is reported to it and, if a competition supervision proceeding is started, it does not incur costs for the person or entity making the complaint or reporting the case.

(ii) Procedural deadlines

The deadlines for evaluating the complaint or a case reported, and the deadline for completing a competition supervision proceeding under the Competition Act, are regulated as follows:

- A complaint must be evaluated within 30 days (before 1 September 2008, within 60 days) from the day the complaint is received by GVH. If it is likely that the evaluation will take longer than 30 days, GVH may extend the deadline by 60 days.
- If a case is reported, GVH will have to make a decision within 30 days. The deadline may be extended by 60 days if necessary.
- A final decision must be made in the procedure within 90 days from the day the investigation is ordered. The deadline for completing the procedure may be extended twice, in every case by 60 days - if necessary.

The same procedural deadlines will apply in the case of a procedure under section 27 (1) of the Unfair Commercial Practices Act, with the exception that the general deadline for making a

decision is 30 days for a case reported under section 25 (2) of the Unfair Commercial Practices Act.

Although similar decisions have already been made in administrative proceedings, the number of such decisions is insignificant for drawing reliable conclusions. Nevertheless, we will discuss the relevant practice based on these decisions in section 4.

(c) Criminal proceedings

Confiscation is an important and effective means of preventing further infringements. Goods marked falsely as well as the equipment used for their production may be confiscated (court decision number: BH 2002. 43). Under section 159 (2) of the Criminal Procedure Code, the suspect's right to dispose of its property may be suspended by the court. Such measure may also be taken regarding properties that are in the possession of others but this latter means is limited to items that may be confiscated later in the procedure.

Although the Criminal Procedure Code allows injured parties to make a claim under civil law in a criminal procedure, the court has the discretionary power to reject this claim and state that the injured party should make a claim in a civil procedure or should enforce the claim by other legal means. It is not possible to appeal this decision of the criminal court. In practice, criminal courts tend to use their power of rejecting the civil claim and advising the injured party to enforce the claim by other (legal) means. This decision by criminal courts naturally delays the enforcement of the claim under civil law, therefore it is safe to say that this procedural option is not efficient. It also makes the procedure less efficient that, even if the criminal court makes a decision on the civil claim in the injured party's favour, this part of the judgement may not be declared provisionally enforceable. Also, the civil law claim made in the first-instance procedure may not be extended in the appellate procedure and the amount claimed may not be increased then.

3. NECESSARY CONDITIONS FOR AN ACTION

3.1. Who is entitled to bring an action: manufacturers, distributors and/or consumers?

3.1.1 Procedure before Civil Court: the injured competitor and, in principle, the consumer. An *action popularis* can be lodged at the Court by the NFH, Social Organisations acting on behalf of the consumer's interests and the Public Prosecutor.

3.1.2 Criminal proceedings: public prosecutor.

3.1.3 Proceedings of the GVH: a notice can be made by everyone, but the proceedings will be started *ex officio*.

3.1.4 Proceedings of the NFH: can be initiated by everyone.

3.2. Who is the defendant: the manufacturer, the distributor, the wholesaler or the retailer?

3.2.1 Procedure before Civil Court: The defendant in a civil procedure can be the manufacturer, the distributor, the wholesaler and also the retailer, if they have been involved in the production or the distribution of the detrimental products.

3.2.2 Criminal proceedings: the manufacturer, the distributor, the wholesaler and the retailer can also be prosecuted, if they have been collaborating in production or distribution of detrimental products intentionally.

3.2.3 Proceedings of the GVH: the „subject” of this proceedings are the same persons as described in Section 3.2.1.

3.2.4 Proceedings of the NFH: this proceedings can be commenced against the party performing the unfair trade practice. If the infringement arises from unlawful trade communication, the designer and the publisher of this communication are also joint and severable liable, unless they have been acting on the explicit instructions of the unfair trade practitioner.

4. CRITERIA FOR ASSESSING AN UNFAIR COPY

What are the criteria for assessing whether a copy as unfair?

What elements must be established? Who carries the burden of proof?

Are there any legal/jurisdictional/other (disputable) presumptions?

If the plaintiff claims violation of Section 6 of the Competition Act (passing-off), the following factors shall be taken into consideration:

- (i) is the appearance of the allegedly copied product characteristic;
- (ii) is this characteristic appearance known by the consumers;
- (iii) is the appearance of the competing product identical or similar to such an extent that consumers would associate such competing product with the original product, thus resulting in the existence of an actual likelihood of confusion.

The burden of proof is on the plaintiff.

4.1. Reproduction

4.1.1. Is it sufficient to show the similarity of products to deem behaviour as unfair or are further elements necessary (e.g., a certain degree of individuality of the original product, market launch of the original product, exploitation of reputation of the original product, savings with regard to development costs, intentional imitation)?

We will first focus on civil court proceedings where the question of the similarity may be related to unfairness. We will then refer to certain administrative cases ruled by the GVH which have also touched the issue of unfairness even though the similarity in those cases has led to mislead the consumers as previously outlined more in detail under our reply to point 1.1 (b). Criminal cases are quite rare on this matter and tend to keep analysis of similarity quite brief where they focus on physical similarities.

In civil law proceedings the similarity of the products is the key element to decide when considering unfairness. However, other circumstances are also taken in account to draw the final conclusions. The aim of the prohibition under the Competition Act is also to protect the market

players from competitors who unfairly want to benefit from this effort by making use of the possible confusion between the products.

In a case initiated by a famous restaurant, “*Bugaci Csárda*” against another restaurant “*Bugaci Karikás Csárda*” for placing an advertisement with a logo misleading the consumers (BH 2004.480.). “Bugaci” is a geographical sign while “Csárda” means restaurant so the defendant argued that it was only using general words and the word “Karikás” made satisfying difference to avoid the confusion with the name of the other restaurant. However, the logo on the advertisement was created in a way that the words “Bugaci” and “Csárda” were indicated with the same font and style while the word “Karikás” was with a completely different colour and font and the style was more of a drawing so the consumers may have been misled. In this case the court also considered the good reputation of the plaintiff’s restaurant, which was included in guidebooks and had built its reputation over a number of years. The court concluded that the use of the geographical sign “Bugaci” together with the word “Csárda” by the other restaurant was unfair since it served to confuse consumers - especially when taking into account the fact that the majority of the customers were tourist and not locals.

In the light of the above, economic investment is also considered when establishing whether or not the production or distribution of a similar product is unfair.

In addition to the above-mentioned cases the GVH also came to important conclusions in certain cases initiated for misleading consumers. The vast majority of these cases were rejected with the reasoning that the issue falls under the competence of the civil court (please see our reply to point 1.1) but still the GVH reached certain conclusions that are worth mentioning. The GVH considers the look-alike products exclusively from the point of view of a consumers since the GVH may only apply sanctions on the manufacturers/distributors of look-alikes, if the look-alikes are materially likely to mislead the consumers.

The GVH, similarly to the civil court, considered the reputation of a brand or a geographical sign as an important factor in assessing an infringement (Vj-111/2001.). The nature of the product and the purchase-process in the case in question – i.e. is it a product purchased as a routine (loyalty for the brand) or consumers more likely to pay attention to detail - is also strongly decisive (Vj-197/2004.). Moreover, the GVH also takes into account the consumers’ expectations regarding a product – i.e. what consumers generally expect from a specific kind of product (Vj-197/2004.). In one case the GVH also considered the increased awareness of consumers in relation to the tobacco market saying that a new product from a new producer does not mislead consumers even if the packaging copies in the main elements (brown and black stripes, figures, logos) from a product with a long presence and reputation in the market, because smokers are conscious consumers deciding upon the name, price and taste of the cigarettes (Vj-284/1996). (However, it shall be noted that in the trademark infringement case, the court established infringement, referring to the similarity based on association).

4.1.2. Is it relevant in deciding if reproduction is unfair whether the reproduced work (in particular, a product’s design) is solely dependent on technical or functional circumstances?

In a case where a former employee of the original developer and distributor had access to the know-how of the newly developed product, the civil courts stated that no objection may be made against a former employee that has obtained the technical knowledge and uses this knowledge in the future. However, it is unfair and not compatible with the Competition Act to pursue identical or substantially similar business activities as the original developer. In the civil court’s view,

identical business activities do not require an identical business profile but a level of similarity in the technical and professional solutions which may be misleading to third parties (BH 1997.407.).

When analyzing if the original product had any specific attribute of construction, form or other technical facility which would itself distinguish the product from similar products on the market, the court has also taken account the product's user manual. If the similarity of the look-alike product is a matter of technical necessity it is not considered as an infringement of unfair competition (BH1994.124.) while, if the similarity is not based on such technical reasons, it is unfair market practice.

Therefore in case of new technologies the scan of the product form, the reproduction of technical or other documentary elements are considered by the courts.

4.2. Confusion risk

4.2.1. Is the confusion risk taken into account and, if so, to what extent?

Basically, the confusion risk as a fundamental condition is taken into account when assessing the unfairness of an imitating competitor.

However, based on the wording of the relevant provision of the Hungarian Competition Act (Section 6 of Act LVII of 1996), the original product has to be characteristic and well-known on the market, and the imitator has to use such outside appearance, packaging, labelling, name, mark or designation during its market activity, by which the competitor or its (original) goods are usually and normally recognized.

Thus, the confusion risk is assessed in the light of the above criteria, mostly with respect to the circumstance whether the unfair competitor uses such sign (name, mark, packaging, etc.) by which the competitor or its (original) goods are usually recognized.

In relation to the potential administrative action against unfair copies it is to be noted that Section 6 (2) of the Unfair Commercial Practices provides that "*a commercial practice shall also be regarded as misleading if it involves a commercial practice which creates confusion with any business entity or its corporate name, or with any products, trade marks, trade names or other distinguishing marks of such business entity*". Furthermore, according to the blacklist of unfair trading practices incorporated in the annex of the act, "*promoting a product similar to a product made by a particular manufacturer in such a manner as deliberately to mislead the consumer into believing that the product is made by that same manufacturer when it is not*" (Annex of the Act - Unfair Trading Practices No. 13) is a specific case of prohibited unfair trading practices. The wording of these provisions shows that this kind of unfair commercial practice is based on the risk of confusion as well, however we are not aware of any legal practice regarding the application of the concerned provisions, since the Unfair Commercial Practices Act has been in force in Hungary since September 1, 2008 only.

The respective provision of the Hungarian Criminal Code (Section 296 - False marking of goods) and also the criminal law enforcement is practically relied on the competition law provisions and practice, therefore the criteria and conditions set forth above regarding the risk of confusion conception defined in the Hungarian Competition Act is applicable in connection with the criminal law enforcement as well.

4.2.2. How is confusion assessed (e.g., overall global approach, according to differences/similarities)?

Based on the relevant practice it can be established that the proceeding courts mostly apply an overall global approach when examining whether by the disputed sign (name, mark, packaging, etc.) the competitor or its goods are usually recognized. (see: BH1997.407)

It is not the actual confusion, but rather the likelihood of confusion that shall be examined. Even though establishing the existence of a likelihood of confusion is to a significant extent a subjective decision, there exist certain statutory requirements, onto which the court's decision shall be based.

When deciding on the likelihood / risk of confusion or similarity, the courts generally consider the dominant elements of the characteristic appearance of the imitated product.

4.2.3. Is the assessment based on the perception of an average consumer, a professional or an informed professional?

Fundamentally, the assessment is based on the perception of the average consumer of the relevant market or sector. In unfair imitation court cases the perception of the average consumer has to be examined by the proceeding courts on their own discretion (see: BH1995.394).

Nevertheless, in some specific cases aspects beyond the conception of average consumer may also be taken into account. For instance, in a published court case concerning unfair imitation in the market of pharmaceutical products, the proceeding court highlighted that - with respect to specific circumstances of the sale and distribution of pharmaceutical products - both the perception of the average consumer and that of the professionals (doctors) may be considered when assessing the risk of confusion (see: EBH1999.111).

Furthermore, in some recent court cases the proceeding courts appointed official court experts for the assessment of the similarities of the goods in question, thus in these cases the assessment was also bound by the perception and opinion of professionals (official experts).

As regards administrative actions based on the Unfair Commercial Practices Act, it shall be highlighted that the act concerns trading practices *vis-a-vis* consumers only and according to Section 2 (a) 'consumer' shall mean any natural person who is acting for purposes which are outside his trade, business or profession. On the basis of this wording it is very likely that in such actions the perception of the average consumer (acting for purposes outside his business or profession) is taken into account when assessing the risk of confusion. However, as mentioned above, no legal practice is available yet.

4.2.4. How can the existence of a confusion risk be proved (testimonies, surveys, other)? (Is it sufficient to demonstrate a confusion risk with regard to one single person?)

Basically, the confusion risk is an issue to be assessed discretionally by the proceeding court, thus it is not a circumstance to be proved by the parties.

However, evidence may support the existence of the confusion risk; in this regard we emphasize that market surveys and researches or examples of particular confusions as well as consumer complaints are generally accepted as proofs of confusion risks. We also refer to the recent court

practice presented above, i.e. that in some cases official expert opinions may also be considered as the proof of the confusion risk.

Market surveys and researches may be considered as evidence supporting the existence of the risk of confusion. Apart from these, the proceeding courts may also take individual consumer complaints into account in connection with the assessment of the risk of confusion, or in some cases the courts may base their decisions upon professional expert opinions examining the similarities-dissimilarities between the concerned products.

4.3. Depreciation

May inferior quality or a lower price be considered an unfairness criterion?

According to our experiences, aspects such as inferior quality or lower prices are generally irrelevant when assessing the unfairness of a competitor, thus these conditions may not be considered as unfairness criteria.

However, the competent competition authority or the consumer protection authority may establish the misleading of the consumers if due to the confusion relating to the products the consumers purchased products of inferior quality (Vj-94/2002).

5. COMPENSATION CONDITIONS

5.1. Is the termination and withdrawal of a product during the distribution stage possible? What about an urgent temporary procedure?

As of 1 September 2009, the interested party may also demand the recall and the definite withdrawal of the infringing products from commercial circulation. Such claim can be enforced as interim injunction as well.

5.2. How is financial compensation assessed (e.g., must a detrimental effect on turnover be proved, breach of brand image, more general commercial damage)? Does the damage award include payment of profits earned by the unfair competitor?

5.2.1 In case of infringement, the injured party may claim compensation for damages in accordance with the general provisions of civil liability under the Civil Code.²

In the course of the proceedings, the person who suffered the damage shall prove: (i) the amount of his/her damages suffered as a consequence of the activity of the other party, and (ii) the causality link between the activity of the defendant and the suffered damages. The infringing party can be ordered to pay compensation for damages unless he/she can prove that his/her behaviour was not culpable or negligent.

Section 355 (4) sets forth that *“by way of compensation the loss of value in the property of the injured person and the loss of profit sustained as a consequence of the damaging act, as well as*

² *“Whoever unlawfully causes damage to another person shall compensate it. He shall be relieved of liability if he proves having acted in such a way as might be expected in the given situation.”* (Section 339 of the Hungarian Civil Code)

the indemnification of expenses needed for the reduction or elimination of the financial and non-financial losses shall be given.“

Elements of the loss:

- (i) loss of value in the assets of the patentholder (*damnum emergens*);
- (ii) loss of profit sustained as a consequence of the infringement (*lucrum cessans*), and
- (iii) indemnification for expenses which were necessary for the mitigation of the losses; and
- (iv) non-pecuniary losses.

In practice it might be difficult to the plaintiffs to prove the exact amount of loss of profit since they have to refer to potential / hypothetical revenues which would have been achieved if the infringing product had not been on the market. Further, the plaintiffs shall prove its profit margin which is a sensitive business data. In order to avoid the disclosure of profit margin, the plaintiffs might choose to enforce only claim for recovery of economic profits (see in detail in 5.2.1).

Non-pecuniary losses can be claimed only if the plaintiffs can prove a non-pecuniary detriment (prejudice) caused by the infringement (i.e., detriment to its reputation). Please note that Hungarian law does not have the concept of punitive damages. The damages award is meant to provide full repair, i.e. to compensate a party from the loss actually suffered, but not more (thus, the aggrieved party, the patent holder, shall not be overcompensated).

Further, the court may order the defendant to pay **general (estimated) compensation** for damages if the extent of damage (usually the lost profit element of the damage) cannot be precisely - even if only in part - calculated.³

In the course of litigation and the fact finding procedure, difficulties may arise in evidencing the reduced turnover sold by the products of the plaintiff and the amount of the resulting damages (outstanding profits) or the damage arising from the infringement. Hungarian courts are usually reluctant to award a high amount of damages as compensation for infringement and they require a high degree of convincing evidence relating to loss of profits. The limitation of damages concerning remote losses is usually determined by the so-called cut-off point in the chain of causality (to put simple: non-foreseeable damages are usually not compensated).

The estimated damages should suffice for providing the injured party with full financial compensation. A judgment on estimated damages constitutes *res judicata*, the decision cannot be changed even if it turns out in the future that the extent of actual damage did not actually reach the amount of the estimated damages.

³ Pursuant to Section 359 (1) of the Civil Code, "*if the extent of damage cannot be precisely calculated, even if only in part, the person responsible for causing the damage can be compelled by court to pay a general indemnification that would be sufficient for providing the aggrieved person with full financial compensation.*" This type of general indemnification will be deemed as compensation of damages **not calculated but only estimated by the court**. Under the mandatory guideline of the Civil Senate of the Supreme Court (Guideline of the Civil Senate of the Supreme Court No. 49. = as abbreviated: PK 49.) the difficulties arising in the course of adjudicating damages shall be deemed significant only if they arise in connection with the establishment of the amount of damages. The court may rule only that the extent of damage cannot be precisely calculated if all available and reasonable evidence has been previously collected in order to calculate the amount of damages.

5.2.2 As of 1 September 2009, the injured party may claim **recovery of economic profits** achieved through the infringement.

In determining the amount of the profit, the net revenue achieved by the infringer as a result of the infringement shall serve as a basis.

The costs which occurred by the infringer *directly* in connection with the sales may be deducted from the above sum. The occurrence and amount of such costs shall be proven by the infringer.

In determining the amount of the profit to be recovered, the **(fictitious) license fee** may be regarded as an important starting point which the infringer would have had to pay to the patentholder if the infringer had obtained a license. This license fee may be claimed even if the infringer has not realized any profit as a result of the infringement.

For the patent holder, it may be very helpful to enforce the claim for **obtaining data** on commercial relations because the information so acquired (annual report, documents relating to accounting, data in connection with sales beyond the data available in public databases, etc.) may serve as evidence of the amount of revenues achieved by the infringer.

In the course of enforcing claim for recovery of economic profits, the plaintiffs will refer to the amount of the sales by the infringer.

The amount of the profit can be calculated in the following way: from the revenues of the infringer, the manufacturing costs or purchase price the infringer paid for the imported product shall be deducted.

The plaintiffs may request the court to appoint an auditor expert to review the books and registers of the infringer.

Please note that the plaintiffs may request the provision of all "data on parties taking part in the manufacture of and trade in goods or performance of services which infringe on the patent, as well as on business relationships established for the use of the infringer."

In case the plaintiff enforces both claim for damages and for the recovery of profit jointly, from the amount of damages, the amount of the recovered profit shall be deducted. This means that these both claims cannot be cumulated.

5.3. Does judicial publication constitute the main or a complementary form of compensation? Is it possible in an urgent temporary procedure?

The court will define in the judgment the method of the publication. It is for the discretion of the court whether it finds the format and size of the publication requested by the plaintiffs appropriate or excessive.

6. ADVISABLE EVOLUTION

6.1. Would you prefer a legislative, regulatory or judicial evolution in order to further enforce the protections established in your legal system? In which case; about what subjects?

We deem it justified to set up a system of sanctions which provide the same comprehensive set of claims both in the case of infringement of the intellectual property rights and breach of competition law rules.

Directive 2004/48/EC of European Parliament and the Council of 29 April 2004 (hereinafter the "Directive") contains provisions concerning the enforcement of intellectual property rights in the EU. Although the Directive itself does not cover unfair market behaviors, it would be reasonable to adopt certain rules of the Directive into unfair competition law in the interests of effective protection and in the interests of effective enforcement of sanctions. This argument can be supported by Section 13 of the Preamble of the Directive. In relation to this, we point to the following provisions:

(i) Article 8 of the Directive encompasses a wider scope of persons about whom the infringer must provide information; namely also those who possess the infringing goods, those who make use of the infringing services or whose services the infringer made use of.

(ii) Article 10 of the Directive specifies so-called corrective measures: the infringer shall recall the infringing goods (tools, materials) from commerce at its own cost. This constitutes an important provision because the defendant is usually the producer/importer and not the member of the commercial channel (the distributors of the unlawfully marketed products are usually not parties to litigation proceedings), therefore, a judgment cannot be enforced against them, only in case of separate proceedings against such distributors.

The respective IP laws define a short and determinate deadline for the court to order interim injunctions in cases of infringement of intellectual property rights. We deem it justified that the court also decide within the same short time-limit in case of a violation of competition law.
