

CONTRIBUTION OF HUNGARY

relating to the Report on the application of Directive 2004/48/EC on the enforcement of intellectual property rights (5140/11 PI 2 DROIPEN 4 JUSTCIV 1)

***based on the Presidency's questionnaire
(6141/11 PI 8 DROIPEN 10 JUSTCIV 17)***

In order to prepare the present replies to the European Commission's Report, the *Hungarian Intellectual Property Office* and the *Ministry of Public Administration and Justice* has conducted a short term consultation with the most relevant organisations and stakeholders. As it is the Budapest Metropolitan Court that has exclusive competence to adjudicate industrial property infringements, the replies received from that court bear special significance.

A wide range of *stakeholders* have sent their observations, giving valuable feedback to the assessment. Besides the association grouping the collective rights management societies (ProArt – Association for Copyright), several other organisations have sent their contribution to the internal consultation, including the Foundation to Protect the Copyright of Audiovisual Works (ASVA), the Association of IT Enterprises (IVSZ), the Hungarian Chamber of Commerce and Industry (MKIK), the American Chamber of Commerce (AmCham), the Hungarian Association for the Protection of Industrial Property and Copyright (MIE), the Foundation of Trade Marks and Copyright Protection, the MIH Group, the Hungarian Chamber of Patent Attorneys and law firms specialized in IP cases.

1. Digital environment**1.1. Do you consider that IPR infringements over the Internet pose a problem that the current toolbox of Directive 2004/48/EC (Enforcement Directive) is not entirely suitable to handle?**

Hungary generally believes that the current toolbox of the Enforcement Directive – complemented by the Directive 2000/31/EC on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (E-commerce Directive) – is fairly adequate to face the new challenges of IP that arose by the development of Internet and the birth of new services in the cyberspace. The new challenges of the Internet, however, necessitate a lot of guidance regarding the existing rules (preliminary rulings from the CJEU, guidelines or best practices) to enable legal practice in each Member State to interpret the harmonised provisions in a uniform manner.

1.2. What kind of specific measures are in your view suitable to combat such infringements? Which measures should be taken at EU level?

According to collective rights management societies, legal practice should take into account that the activity of a person performing filesharing cannot be considered simply as an “electronic-mail-like” individual communication pursuant to Recital 18 of the E-commerce Directive. It should rather be treated as a content providing service i.e. making a content made by another third party available to the public, which qualifies as an *on demand information society service* accessible to everybody (file sharing in copyright terms may be deemed to be an act of making available to the public). The purpose of the above is that Article 5 of the E-

commerce Directive, which prescribes for service providers to render certain information easily, directly and permanently accessible to the recipients of the service and the competent authorities, be applicable to persons carrying out file sharing activities.

Right holders' associations also suggested the extension of the list of measures to be applied with respect to infringements in an online environment. The proposed measures include

- impeding the accessibility of the websites (DNS and IP address),
- blocking of the domain names used for illegal services,
- introduction of filtering systems in compliance with the provisions of Directive 2001/29/EC (Infosoc Directive) requiring effective enforcement measures but not falling within the scope of the prohibition of general monitoring enshrined in the E-commerce Directive,
- making the filtering / restriction possible on the basis of the volume of the traffic,
- adoption of a gradual response system similar to a HADOPI system in France,
- accepting the negative statement of collective right management societies as evidence of the service's illegality (in case of use falling under extended collective right management).

In our view, however, there is *no EU level action needed in this respect* as Member States should be in the position to decide whether they introduce measures that are not already implied in the more general wording of the Enforcement Directive (i.e. "impeding the accessibility of websites" and "blocking domain names" can be specific forms of injunctions already available against intermediaries).

1.3. Is there a need to lay down rules regarding the *liability of online service providers* (and *limitations* thereto) in the Enforcement Directive beyond those already existing in the E-commerce Directive? If yes, is there a need to *define the term* "online service provider" in the legal framework of intellectual property?

Hungary believes that the issue of the liability of ISPs should be addressed in the E-commerce Directive rather than in the Enforcement Directive. This, of course does not mean that Hungary urges the amendment of the E-commerce Directive – we are just indicating the right legislative location of the relevant provisions.

1.4. Taking into account the types of data mentioned in Article 8(1) and 8(2) of the Enforcement Directive, is there a need to introduce explicit rules that enable authorities to order *online service providers*, regardless of their liability, to *disclose information* relating to *individual subscribers* who have allegedly committed IP infringement? If yes, what should be the *preconditions* and *limits* for such orders (e.g. infringement has to be on a commercial scale, only judicial authorities may order such measures, infringement proceedings have to be in progress, only certain types of data may be provided, limitations for safeguarding rights to privacy and protection of confidential data)? What should be the *sanction* for non-compliance with such orders? Should these measures be limited to IP infringements?

The Hungarian IP acts transposing the Enforcement Directive enable judicial authorities to order online service providers, regardless of their liability, to disclose information. With its

rights infringed, the right holder may demand that the infringer give information on the identity of third persons involved in the production and distribution of the infringing goods or in the provision of infringing services and of their channels of distribution. The same claim may be lodged against *any person who* was found in possession of the infringing objects on a commercial scale, was found to be using the infringing services on a commercial scale, *was found to be providing services used in infringing activities on a commercial scale*, or was indicated by the person referred to above as being involved in the production or distribution of the infringing objects or in the provision of the infringing services. The information to be provided include details of *all participants taking part in the distribution of infringing goods and services*, data on the persons in possession of such goods and the wholesalers and retailers involved in their distribution, as well as quantities and prices of infringing goods manufactured, distributed, used or ordered.

The establishment of the liability of the online service providers is not the precondition of a disclosure of information. The right of information, therefore, could in theory be invoked effectively also in relation to the online service providers on the basis of the provisions of the Enforcement Directive as well – provided that the individual subscribers committing infringing acts (e.g. file sharing) may be considered as “distributors” of infringing goods (and that the online service provider is providing its relevant services on a commercial scale). Article 4 of Directive 2006/24/EC (Data Retention Directive), however, specifies that “*data retained [...] are provided only to the competent national authorities in specific cases and in accordance with national law*”. Taking into account Article 8(3)(e) of the Enforcement Directive giving precedence to data protection rules, this entails that right holders cannot have access to the data of individual subscribers retained by online service providers even if they have not been subject to deletion and all the other conditions are met.

In the light of the above, it seems that it is not for the Enforcement Directive to introduce rules to override data retention and data protection rules but rather a horizontal policy issue which has its effect on other areas of law and therefore should be handled with utmost care to safeguard the delicate balance of interests and fundamental rights.

As long as no horizontal action is taken to review not only EU IP legislation but all the Directives having an effect on online service providers’ role in combating online piracy, it is *the notice and take down procedure* that seems to be the most efficient way to remove infringing content from the Internet as it can be used without actual knowledge of the infringer’s identity.

In the event of legislative proposals to the effect of making it possible to ask for individual subscribers’ data from online service providers, Hungary wishes to stress that such information should only cover those data that are absolutely indispensable to enforce the claims, i.e. name and contact details of the alleged infringer.

1.5. Taking into account the jurisprudence of the European Court of Justice, is there a need to amend the existing legal framework relating to *the liability or legal obligations of online service providers* (including search engines and online market places) whose services are directly used in infringing activities (not necessarily on a commercial scale)? If yes, which legal instrument should be amended (the Directive on electronic commerce, the Enforcement Directive or the Trade Mark Directive)?

The notice and take down procedure is currently the most effective means to fight online infringements while it gives online service providers the necessary leeway to avoid being held liable for infringements of third parties. The regime of setting the conditions to be exempted from liability laid down in the E-commerce Directive is working in a satisfactory manner and together with guidance from the CJEU on the interpretation of certain provisions it does not need adaptation at this stage.

1.6. In the case of online copyright infringements, does your law provide for the possibility of taking measures against *websites facilitating such infringements* or against *advertisers financing such websites*? Does your law provide for specific legal measures against P2P file sharing? Do you see a need for such measures to be included in the Enforcement Directive?

Under Hungarian copyright law, each type of the P2P file sharing resulting in the reproduction of content under copyright protection without the author's consent or without paying the relevant fees is considered copyright infringement, but there are no specific provisions targeting P2P file sharing. Injunctions against intermediaries (even without establishing their liability) and the notice and take down procedure provided for in Act CVIII of 2001 on certain matters pertaining to electronic commercial services and information society (E-commerce Act) may, of course, prove to be effective measures against websites and advertisers facilitating IP infringements.

It should also be noted that the situation of lawful online content providing services in Hungary is critical, mainly due to the complex collective rights management system, the DRM technologies required in exchange for licences and the scarce repertoire available in Hungary. It is illustrative to highlight that one of the biggest online music store ceases to provide its services from the end of March 2011 in Hungary. As a result, there is hardly any legal content available online to compete with illegal file sharing. This phenomenon is also indicating that the fight against copyright piracy does not necessarily only call for stronger IP enforcement but also new business models in the copyright industry with a sound legal framework on collective rights management organisations.

2. Scope of the Directive

2.1. Is there a need to apply some (or all) of the measures provided for in the Enforcement Directive also with a view to rights that currently are not covered by the Directive¹?

As regards the scope of the Enforcement Directive, Hungary deems it necessary to maintain the optional nature of the Directive which does not extend the scope of the Directive in an obligatory way to trade secrets, domain names and to protection against parasitic copying (look-alike marketing). We believe that Recital 13 is sufficient reference to the wide scope of the Directive, and that Member States, if they wish so, have the possibility to implement certain provisions in the Directive with respect to certain acts involving unfair competition.

¹ See Statement by the Commission concerning Article 2 of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights (2005/295/EC)

This happened in Hungary in 2009 with an amendment of Act LVII of 1996 (Competition Act) relating to *trade secrets* and *protection against parasitic copying*. Taking into account certain elements that make the protection provided by the relevant provisions of competition law similar to IP protection, the following have been introduced in the Competition Act:

- extension of the inventory of measures that the court may order, at the request of the applicant, in the case of parasitic copying or infringement of trade secrets:
 - recall and removal from the channels of commerce, destruction;
 - recovery of profits due to infringement;
 - publication of judicial decisions.
- measures enhancing the efficiency of enforcement:
 - provisional measures (request may be filed prior to the filing of an action);
 - precautionary measures (and possible court orders for the defendant to provide the necessary financial information);
 - security from the alleged infringer (to be requested or ordered instead of an injunction);
 - special rules on preliminary evidence.
- special procedural rules for the application of the new measures:
 - special (pre-litigation) procedure for ordering provisional measures or preliminary evidence (and for the review of these measures);
 - revocation of provisional measures if no proceedings are initiated within a given deadline;
 - *inaudita altera parte* decisions and review thereof.

We consider it unnecessary, however, to mechanically extend the scope of the Directive to rights that don't have all the relevant characteristics of exclusive IP rights.

2.2. How do you think issues like the protection of trade secrets and domain names and protection against parasitic copies (look-alike marketing) should be dealt with? Do you see them as being linked to IPR or do you consider them more an issue of unfair competition law? Would you see an added value of EU action in that area?

Protection of trade secrets and *protection against parasitic copies* are principally matters of unfair competition law, even if they have certain characteristics common with IP rights. It should be noted, however, that they are essentially different from those rights in the sense that they are lacking the exclusive nature of rights conferred on right holders that would make it possible to enforce them irrespective of the fact whether the goods in question are copies of the original or not. No direct link to IP legislation is thus necessary regarding these issues and Member States should remain free to decide which measures of the Enforcement Directive are to be extended to acts other than IP infringements (also in the case of provisions that are mandatory when it comes to IP enforcement).

As far as *domain names* are concerned, the fallacy of treating them as signs conferring similar rights on their owners as trade marks on their right holders should be avoided. There is indeed a link between domain names and trade marks, but the logic is reversed: use of domain names can qualify as trade mark infringement and even transfer of domain names can be achieved via dispute resolution mechanisms based on trade mark rights, but the registration of a domain name (often referred to as identifiers similar to phone numbers) does not provide the user of that sign with any exclusive right. Therefore, domain names should fall outside the scope of

the Directive and there is no reason to apply any of the special measures contained therein to them.

2.3. Is there a need to provide a list of intellectual property rights in the Enforcement Directive? If yes, what should be the relation of this list to the scope of the Directive (exhaustive list, indicative list, minimum list)? Should such a list be included in the Articles or in the recitals? How should rights protected only by certain national laws be treated in such a list?

There is *no need to include a list of IP rights in the Directive*. However, in the event of any such list drawn up for the sake of clarity, it has to be made clear that it is still for national laws to determine the types of neighbouring rights recognised by each Member State within the limits of EU law on copyright, i.e. the scope of the Directive does not restrict Member States' freedom to include or exclude certain rights from the circle of rights relating to copyright.

3. Evidence

3.1. What are the limits of the provisional measures (e.g. search or seizure orders) in respect of confidential (private) information under your law? Have you encountered any difficulties in this respect?

The following remedies are requested most often as provisional measures in IP infringement proceedings:

- an injunction to stop the infringement and enjoin the infringer continuing the infringement;
- claim that the infringer should provide data on the parties taking part in the manufacturing and distribution of the products concerned and on the business contacts established for marketing of such products;
- the seizure of the infringing goods and the packaging thereof, as well as of the means and materials exclusively or principally used for infringement.

It has occurred in judicial practice that the person responsible for providing the information refused to comply with the court's notice due to commercial confidentiality, but the repeated order of the court in case of a duly substantiated infringement precluded the defendant from relying on trade secrets.

It is important that the request for provision of information clearly define the data needed. The list of the data that can be asked for is set forth in the provisions governing the right of information. This offers the court the possibility to oblige the (alleged) infringer to provide data sufficient to identify the (further) infringer(s) and details necessary for the purposes of the proceedings, while balancing the interests of the right holder and the confidentiality of the data under the control of the (alleged) infringer.

3.2. What are the conditions, under your law, to obtain banking, financial or commercial documents?

On the one hand, communication of banking, financial and commercial data may be ordered by the court on request of the right holder as *a prerequisite of a precautionary measure*, i.e. when these data are needed to establish that the recovery of unfair profits or the payment of damages would probably be endangered and thus precautionary seizure of assets or blocking of bank accounts is called for.

The ways of obtaining these information depend on the fact whether the infringer is in possession of the requested financial documents (or willing to provide them) or the court has to request them directly from the bank where the infringer has an account. In Hungarian judicial practice only the infringer has been requested to communicate certain financial or banking documents, banks have never been directly ordered to provide such data so far.

On the other hand, such data may be ordered to be communicated (and underlying documents presented) as *a measure of securing evidence*, i.e. if one party has already substantiated his or her claims “to the extent that can be expected”, the other party may be ordered to provide documents or other evidence, and banking, financial or commercial data. Failure to do so entails a partial reversal of the burden of proof, i.e. the court deems the allegations of the other party undisputed.

3.3. Is there a need to ensure that

(a) *personal computers can be searched/seized in order to establish evidence for an IPR infringement committed via the Internet?*

Pursuant to the relevant legislation in Hungary, seizure of infringing goods as well as implements and materials *exclusively or principally* used in infringing activities may be ordered – even if they are not in the possession of the infringer, but the owner knew or had reasonable grounds to know about the infringement.

When it comes to ordering the search or seizure of personal computers, however, serious concerns may be raised whether they can be regarded as implements predominantly used for infringement purposes. Personal computers can be (and are) used for several purposes, and *such searches or seizures would not be proportionate taking into account the amount of personal or confidential data which are not in connection with the infringement but would be accessed nevertheless*. It is therefore questionable if search or seizure of personal computers could be carried out without being in conflict with data protection rules.

(b) *screenshots are accepted by courts as evidence for infringements committed via the Internet?*

Taking into account the relatively easy ways to falsify the date and content of a given screenshot, if a party wishes to use such a document (i.e. a printed screenshot) as evidence, judicial practice in Hungary requires it to be certified by a notary public. This means that the *screenshot should be presented and printed out in the presence of such a notary who certifies the fact that at a given date the content of a given website was identical to the printed screenshot*.

Another way to prove that a given content is available online or that it has been removed from the Internet is *to present to the judge the website concerned on a computer available at the court's premises during the hearing*.

3.4. Is there a need to clarify the term “*under the control*” relating to evidence in Article 6 of the Enforcement Directive?

No clarification is necessary in this respect.

4. Intermediaries**4.1. Is there a need to introduce a *common definition of intermediaries* in the Enforcement Directive?**

Taking into account the heterogeneity of intermediaries (also due to the different forms of IP protection having distinct characteristics, e.g. the difference between a carrier of counterfeit goods and a website operator facilitating P2P file sharing) and the fact that the Directive specifies in each provision what it means by intermediary with respect to each measure [cf. Art. 8(1)(a)-(d), Art. 9(1)(a) and Art. 11 where the measures concerned may be “triggered” by certain conditions fulfilled], *a common definition of intermediaries would not have any added value.*

4.2. Does your law contain *specific provisions on injunctions against intermediaries*, or do such injunctions have to be requested under the general rules? If there are specific provisions, what are these and are they used often?

Apart from the requirements resulting from the Enforcement Directive’s wording (i.e. that injunctions may be ordered against intermediaries whose services are used to infringe an IP right) there are *no specific provisions regarding injunctions against intermediaries* in Hungarian law. This is without prejudice to the fact, of course, that an injunction against an intermediary may be ordered without establishing the liability of the intermediary concerned and that judicial practice requires them to be parties to the litigation (see the reply to question 4.4.).

4.3. Is there a need to clarify in the Enforcement Directive that not only permanent injunctions are available against intermediaries but also *interlocutory injunctions*? Should other provisional or precautionary measures be available against intermediaries?

It is clear from Article 9(1)(a) of the Directive that *interlocutory injunctions* may be ordered against intermediaries (whose services are being used by a third party to infringe an IP right) and Hungarian law does not impose any limitation on that either.

In Hungarian judicial practice, *providing information* may also be ordered as a provisional measure, even against intermediaries [if they fall into one of the categories of persons who are indirectly involved in the infringement “on a commercial scale”, cf. Article 8(1)(a)-(d)]. Given that there are differences in the interpretation of the relationship of provisional measures and right to information in national laws, this possibility (or the absence thereof) could be made clear in the Directive’s wording (see also the reply to question 5.3.).

The Directive does not expressly mention intermediaries in its Article 9(1)(b), but *seizure orders* are often issued if all the necessary conditions are met. In Hungarian IP law awareness

(or reasonable grounds of awareness) of the infringing nature of goods has to be shown (or at least substantiated) so that seizure orders can be effected against owners of goods that are not in possession of the infringer anymore.

Other measures should not be available against intermediaries without establishing their liability for the infringement.

4.4. Taking into account that certain measures are available against intermediaries even when they cannot be held liable for the infringing acts, is there a need to *clarify the standing of an intermediary in IP infringement proceedings?* Can an intermediary be deemed an “*unsuccessful party*” when an injunction is issued against it without establishing its liability for the infringement (e.g. relating to cost issues)?

Judicial practice in Hungary (confirmed by the Court of Appeal) *requires that intermediaries against whom any measures are to be ordered be parties to the case*. This means that when intermediaries are addressees of injunctions or they are ordered to provide information, *they have to be defendants even where their liability for the infringement cannot be established*. This also means that if a provisional measure was requested against intermediaries before filing the lawsuit, they have to be sued as well in the litigation phase. It is for each Member State’s national law, however, to determine if such a position is necessary for the issuance of the said measures.

Lack of liability, however, precludes the possibility to deem such intermediaries “unsuccessful parties”, as the injunctions and orders referred to above are not to be considered as sanctions but instruments to mitigate the harmful effects of infringement (especially if the infringer cannot be found) and to identify the actual infringer (or further infringers) and establish the details of the infringement (e.g. quantities and prices) necessary for the purposes of the litigation.

4.5. Should intermediaries (transport service providers, Internet platforms, ISPs) be involved to a greater extent in the prevention or termination of IP infringements? If yes, what ways would you deem appropriate?

The special position of intermediaries (especially ISPs) is reflected in the complex legal framework they are operating in. The liability of ISPs (and the limitation thereof) is duly regulated by the E-commerce Directive, while the Enforcement Directive makes certain measures applicable against intermediaries even in the absence of their liability for the actual IP infringement. The latter makes it possible to enjoin them enabling the continuation of the infringement and to have them provide information about the infringers and other details of the infringement. Moreover, they also have to comply with other sector-specific rules such as data retention provisions also harmonised on EU level (see also the reply to question 5.4.).

It is true that there are divergences in Member States’ law regarding the actual level of intermediaries’ “involvement” (due to the different implementation of the relevant Directives and the flexibilities confirmed by, *inter alia*, the CJEU in the Promusicae case), but the proximity of intermediaries to actual infringements is in most cases more a burden on them than an advantageous position. Coherent policy choices in implementation of EU Directives and consistent application of the present legal provisions should represent a fair balance of interests that imposes reasonable obligations on intermediaries but saving them from being appointed as “sentries of IP rights” against their own will. The “awareness test” together with

the obligation to “act expeditiously” (embodied in the notice and take down procedures) are reasonable and justified impositions on intermediaries, but placing additional responsibility on them would probably undermine the business model on which they are founded, not to mention that they are not entitled to establish whether a breach of law has actually happened.

What is needed instead is *the clarification of the obligations currently imposed on intermediaries* (not necessarily in the Enforcement Directive), as consistent and unambiguous interpretation of existing provisions could already make IP enforcement much more effective.

EU law makes it possible for Member States to design effective IP enforcement systems that are taking into account all legitimate interests while relying on the special position of intermediaries. The different policy choices of different countries and the issues of interpretation *do not entail a necessity to impose new EU rules and put more mandatory obligations on intermediaries*. (The issues relating to the right to information are dealt with in the replies to the questions in section 5).

It is also worth noting that the main problem is not the scarcity of claims that right holders can have recourse to but *the difficulties in the execution of certain court orders* (be it a provisional measure or a decision on the merits of the case). It is not hard to see how small the chances are that failure to provide information despite a court order (or providing insufficient or false information) entails effective judicial execution. Recurring penalty payments are one way to handle this problem, but it is seldom an effective means to gather information deliberately withheld.

5. Right of information

5.1. Is there a difficulty in applying IP enforcement measures (especially rules on right of information) together with rules on data protection or right to privacy in your country?

In industrial property cases (predominantly trade mark and patent infringements) it hardly ever happens that parties invoke these arguments, but it is not frequent in copyright cases either.

Trade secrets are sometimes relied upon, but in this case – if it concerns evidence – the court usually holds a closed hearing, and if the infringement is already considered as “made likely” (cf. “reasonably available evidence”), the courts repeatedly order the defendant to provide information without the possibility to deny it based on confidentiality.

It may be argued, however, that if it imposed undue burden on the defendant to disclose its trade secrets (i.e. such disclosure would be disproportionate), the court should not order to provide all the information sought by the plaintiff or, if it’s about business data such as prices or exact quantities, a neutral CPA (Certified Public Accountant) should be appointed to “filter out” the information needed to calculate damages but withholding confidential information the disclosure of which would cause irreparable harm to the defendant. The option of introducing such an “information intermediary” to civil proceedings in the Enforcement Directive could be considered – at least as an optional provision.

Stakeholders did not indicate that data protection and right to privacy would significantly hinder IP enforcement, and one contribution from the IT sector highlights that “[r]egarding

the Directives 2000/31, 2001/29, 2004/48 and 2002/58 a fair balance between various fundamental rights was struck. By adopting legislative measures to strengthen the enforcement of intellectual property rights the balance between the right to property and right to privacy would be abolished”.

5.2. What are the limits of the right of information in your country, in view of privacy issues? Is there a need to amend the Enforcement Directive (or other EU legal instruments) in order to accommodate such conflicts?

Professional representatives indicate that it should not be possible to invoke the right to privacy to data which make it possible to identify alleged infringers. Right holders are not seeking access to the content of communications or restricting the freedom of expression but only wish to identify the persons responsible for the illegal activity, i.e. the contact details of the persons behind IP addresses.

Collective rights management societies have indicated that current legislation on e-commerce in Hungary preclude right holders to invoke the right of information against ISPs by setting up an exhaustive list of measures that can be applied against them (which does not contain providing information and thus making specific IP enforcement provisions inapplicable). This has the consequence that infringers in the online environment remain unidentifiable thereby seriously impairing the effectiveness of IP enforcement.

They also argue that persons carrying out file sharing activities, by making content publicly available, should qualify as content providers (information society service providers) within the meaning of Article 5 of the E-commerce Directive and thus be obliged to publish certain information about themselves (see the reply to question 1.2.).

It should be carefully analysed, however, which are the problems to be solved on an EU level and which are the issues to be sorted out in national legislation. In the light of the above, it seems that *the Enforcement Directive does not need amendment to accommodate the concerns of the copyright industry.*

5.3. Is there a need to clarify that the right of information pursuant to Article 8 of the Enforcement Directive may also be invoked before the infringement (and, where appropriate, the acts having been carried out on a commercial scale) was established by the judicial authorities, i.e. that *providing information* may also be ordered as a *provisional measure*? Is the usefulness of this interpretation in strengthening the IP enforcement framework enough to outweigh that providing information is by definition “irreversible” and that in certain cases the addressees of such orders are third parties (intermediaries) not being party to the litigation?

It seems indispensable to *clarify the relationship between the right of information and provisional measures*, thus the Directive’s wording should be adapted in this regard. The judicial practice in Hungary, after a ruling of the Budapest Court of Appeal to this effect, is willing to order the defendant to provide information also as a provisional measure. If the right of information is invoked against third parties, the plaintiff should ensure that they are (or, if the provisional measure is requested before the filing of the lawsuit, will be) parties to the litigation.

The right of information, however, is not necessarily the only (and most effective) means to get the data needed for effective enforcement before decision on the merits of the case. The other way to acquire information under the control of the opposing party is *a measure of securing evidence*, i.e. if one party has already substantiated his or her claims “to the extent that can be expected”, the other party may be ordered to provide documents or other evidence, and banking, financial or commercial data. Failure to do so entails a partial reversal of the burden of proof, i.e. the court deems the allegations of the other party undisputed.

5.4. Due to data retention laws, online service providers sometimes do not possess the requested information about the infringements (e.g. it was subject to deletion). At the same time this information might need to be provided when requested by the public authorities. How do online service providers in your country respond to such requests from the public authorities when they are no longer in the possession of the information needed?

Deletion of data that are not to be retained anymore is not the only obstacle to providing information in IP enforcement cases. Article 4 of Directive 2006/24/EC (Data Retention Directive) specifies that “*data retained [...] are provided only to the competent national authorities in specific cases and in accordance with national law*”. This entails that right holders cannot have access to the data of individual subscribers retained by ISPs even if they have not been subject to deletion.

In any case, data deleted lawfully or not provided by virtue of legal provisions restricting access to them *cannot be objects of a court order in the sense of Article 8 of the Enforcement Directive*, and online service providers can rely on the relevant provisions of national law on access to data retained (or their right to delete data after the prescribed period) when not complying with an order obliging them to supply such data notwithstanding.

5.5. Can information that in your country would normally be subject to the banking secrecy, be requested by using the right of information?

In Hungarian IP law the communication of banking, financial and commercial data is not handled in the remit of the right of information. On the one hand, provision of such data may be ordered by the court on request of the right holder as *a prerequisite of a precautionary measure*, i.e. when these data are needed to establish that the recovery of unfair profits or the payment of damages would probably be endangered and thus precautionary seizure of assets or blocking of bank accounts is called for.

On the other hand, such data may be ordered to be communicated (and underlying documents presented) as *a measure of securing evidence*, i.e. if one party has already substantiated his or her claims “to the extent that can be expected”, the other party may be ordered to provide documents or other evidence, and banking, financial or commercial data. Failure to do so entails a partial reversal of the burden of proof, i.e. the court deems the allegations of the other party undisputed.

6. Commercial scale

6.1. Have you defined "*commercial scale*" in your country – either in law or by jurisprudence? If so, which is the definition that you have chosen?

The definition of “commercial scale” in relation to invoking the right of information against other persons than the alleged infringer is set out by law in

- Article 94(5) of LXXVI of 1999 Act on Copyright,
- Article 35(6) of Act XXXIII of 1995 on the Patent Protection of Inventions, and
- Article 27(6) of Act XI of 1997 on the Protection of Trademarks and Geographical Indications.

The wording of the definition which is included in all three Acts is the following:

„[...] acts carried out on a commercial scale are those where the nature and quantity of the goods or services involved clearly indicate that they are carried out for direct or indirect economic or commercial advantage. In the absence of proof to the contrary, acts carried out by end consumers acting in good faith do not qualify as acts carried out on a commercial scale.”

6.2. Is the definition of “*commercial scale*” still appropriate in Recital 14 of the Enforcement Directive? Is there a need to have a definition at all, and if yes, should it be moved to the Articles of the Directive? Should the link between the commercial scale requirement and the right of information remain intact?

We believe that the definition of “commercial scale” assists the interpretation of the Directive and its actual place in Recital (14) may also deemed to be appropriate. Hungary is of the view that the link between the commercial scale requirement and the right of information shall remain intact. Those who indirectly benefit from infringement might be expected to provide relevant information about the origin and distribution networks that concern infringing goods and services. Other persons (e.g. end consumers acting in good faith) may be expected to provide information as witnesses in civil proceedings according to general procedural rules and not within the framework of special IP enforcement measures.

However, it should also be kept in mind there are some IP infringing conducts that do not result in financial gain to the infringer, but nonetheless cause significant loss on the side of the right holder (mostly in the cases of copyright piracy). Due to the many aspects that should be evaluated in this regard and taking into account the specificities of the different forms of IP protection, we believe that the interpretation of this criterion shall remain on a case-by-case basis, i.e. relying on the facts of each individual case, leaving a margin of appreciation to the court. This also entails that *we don't deem it instrumental to create a binding definition within the Articles of the Directive.*

6.3. The criterion of “commercial scale” (as for its definition, see Recital 14 of the Enforcement Directive) applies to a limited number of specific cases: communication of banking or commercial documents [Article 6(2)], right of information towards intermediaries [Article 8(1)], and seizure of movable and immovable property and

blocking of bank accounts as a precautionary measure [Article 9(2)]. For which of the above mentioned three situations do you consider the *commercial scale criterion as necessary or useful*? What risks do you see if this criterion were to be abolished?

Hungary has introduced the commercial scale requirement only relating to the right of information invoked against third parties.

It is not required that the infringement was committed on a commercial scale for ordering the communication of banking or financial documents and for ordering precautionary measures. Taking into account, however, that it is only an option for the court to take these measures, if it deems that they would be disproportionate (e.g. because the scale of infringement or the interest to be protected does not justify them), it may reject the plaintiff's claim aiming at such communication or seizure. We believe that these provisions are fit for the purpose and do not entail great risks.

6.4. If you have made the right of information subject to the commercial scale requirement, how do you deal with the problem that sometimes the *rightholder needs additional information* from an intermediary in order to be able to determine whether the infringement has been committed at a commercial scale?

We do not have any data concerning this issue.

6.5. If under your law commercial scale is not a precondition for ordering the measures concerned, *has its absence lead to abuses*, in certain areas, by right holders? If yes, which areas are affected?

No such abuses have been identified so far.

7. Damages

7.1. Do you see a deficiency in the practice of awarding damages, i.e. in compensating the rightholder for damages suffered (including moral prejudice and lost profits)? If yes, is this deficiency due to the current wording of the Enforcement Directive? Would it help this deficiency if recovery of unjust enrichment was to be ordered as an objective sanction (i.e. not depending on the culpability of the infringer), or should unjust enrichment of the infringer and other economical consequences play a greater role in calculating damages?

In Hungary, recovery of unjust enrichment may be ordered by the courts as an objective sanction; thus it does not depend on the culpability of the infringer. Proving the infringement and the extent of enrichment (unfair profits) is enough for courts to order this remedy.

It is also possible to claim damages according to the relevant provisions of Hungarian Civil Code. The basic principle of awarding damages is "full compensation", i.e. actual losses, lost profits, cost entailed by the damage and any other compensation necessary to counterbalance the pecuniary and moral damages suffered by the applicant are to be paid by the defendant – provided, of course, that all the conditions necessary to establish liability are met.

In intellectual property infringement proceedings most right holders request for declaration of the fact of infringement by the court and an injunction to stop the infringement and oblige the infringer to discontinue the infringement. Due to the difficulty of proving the amount of damages suffered, damages are often not even claimed. It is also a common problem that the damages awarded cannot be acquired in practice due to the lack of executable assets at the infringer.

7.2. In your judicial practice, what is the relationship between unjust enrichment and lost profits (i.e. royalties or license fees that would have been due in a contractual relationship)?

Hungarian legislation contains provisions on both damages and the recovery of unjust enrichment. Recovery of unjust enrichment may be ordered by the courts as an objective sanction; thus it does not depend on the culpability of the infringer. Proving the infringement, the extent of enrichment (unfair profits) and the causal link between the two is enough for courts to order this remedy.

Hungarian courts usually calculate the amount of the recovery on the basis of the amount of the license fees which should have been paid to the right holder. The rule of thumb applied is to presume a value corresponding to 5-15% of the net revenue at the infringer (the actual market success can be taken into account by approaching the value to the upper limit).

Damages beyond unfair profits may only be awarded if additional loss is proven by the plaintiff and the defendant cannot exculpate himself or herself.

In Hungary the general principle of awarding damages is that it should fully compensate the right holder for the damages suffered, the lost profits and the costs deriving from the infringement. As opposed to the recovery of unjust enrichment, damages may only be awarded if the culpability of the infringer is proven. It has to be borne in mind, however, that the amount of unpaid license fees can only be awarded once, either as recovery of unfair profits or as part of the damages awarded. The court usually invites the applicant to make a statement about which basis he chooses when claiming the unpaid royalties/licence fees.

7.3. What is the legal situation under your law relating to the *liability of legal persons* (and the managers thereof for the acts carried out by the legal person)? Is there any *IP-specific problem* in this respect that could be tackled in the Enforcement Directive?

The primary legislation governing the form and regulation – including also the liability - of companies in Hungary is Act IV of 2006 on Business Societies (Companies Act), which entered into force on 1 July 2006. This Act is the successor of Act CXLIV of 1997.

Under the Companies Act, four types of business associations may be established:

- *unlimited partnership* (“közkereseti társaság” or kkt., “betéti társaság” or bt.): members of kkt. and bt. have unlimited financial liability for the obligations of the company;

- *limited liability company* (“korlátolt felelősségű társaság” or kft.) and *company limited by shares* (“részvénytársaság” or rt. – it can be operated as a closed company if its shares are not put in public circulation or as a public company if its shares are put in public circulation, i.e. through a stock exchange): the members or shareholders of these companies bear only limited liability.

According to Companies Act, executive officers shall conduct the management of the business association with the increased care generally expected from persons occupying such positions, and give priority to the interests of the business society. Executive officers are liable to the company in accordance with the general rules of civil law for damages caused by violation of the law, or breach of the articles of the deed of foundation or the statutes, the resolutions of the company’s supreme body, or their management obligations.

The business society is liable for damages caused to third parties by its executive officer acting within his sphere of competence as such. Generally only the company may be sued, and then the company can lodge a claim against the executive officer.

No IP-specific problems arise in this respect that could be tackled in the Enforcement Directive.

8. Corrective measures

8.1. In your judicial practice, what is the *difference between “recall” and “definitive removal”* from the channels of commerce? Is the fact that the infringer is *no longer in possession of the infringing goods* a factor in deciding which measure to apply?

The line between the two measures is blurred in Hungarian legal practice. The fact whether the infringer is in possession of the infringing goods or not often has no relevance as regards the choice of plaintiffs to claim the recall or the definitive removal of the infringing goods from the channels of commerce.

The effectiveness of these measures is also questionable when the infringer is indeed no longer in possession of the goods as execution of court orders takes a long time and retailers usually don’t possess stocks greater than one or two weeks’ supply.

If there is a danger of infringing goods spreading fast, a *seizure order* can be issued as a provisional measure and this can be applied in cases when they are not in possession of the infringer, but the owner is aware (or can be expected to be aware) of the infringing nature of goods.

Professional representatives suggested that the court order stipulating recall from the channels of commerce could, on an *ex parte* basis, extend to those retailers who are identified in the data provided by the infringer (this order could be then appealed by the retailers concerned). Another possibility is to order the infringer to make an offer to the retailers to purchase back the goods concerned.

8.2. Is there a need to clarify in the Directive *the relationship between corrective and provisional measures*?

We believe that the relationship is clear enough. Article 10 of the Directive is unequivocal in *requiring a decision on the merits of the case as a prerequisite for corrective measures* such as recall, definitive removal from the channels of commerce and destruction. The “corresponding” provisional measure is *seizure or delivery up* of the goods suspected of infringing IP rights enshrined in Article 9(1)(b) of the Directive.

8.3. Does it happen frequently that the infringer is not able to pay the *costs of the destruction* and that those therefore have to be borne by the State? Would you consider it justified to impose the costs for the destruction of counterfeit goods on the State where the destruction is in the public interest (in particular because these goods pose a risk to consumers' health and safety)?

The destruction of an infringing product may be ordered by the court based on a claim. Should that party not act as prescribed in the order, the plaintiff has the right to turn to the bailiff demanding for the execution of the order on its own expense, and claim for the reimbursement of its costs related to the destruction from the defendant afterwards. The plaintiff has to take the risk of the other party's insolvency and actually has no right to claim for the reimbursement of the costs from the State in any case.

Hungary would consider the solution of imposing such costs onto the State only after having learned concrete proposals in this respect.

8.4. Would it improve the situation if the Directive clarified that courts are entitled to impose the costs of destruction of the infringing goods *directly* on the infringer once the infringement is established?

It occurs many times that the costs of storage and destruction that arose *during the proceedings initiated at the customs authorities* within the meaning of Regulation 1383/2003/EC are paid in advance by the right holder. Recovery of such costs in civil proceedings often proves to be difficult because courts tend to calculate them into the damages (which requires evidence of culpability on the defendant's part) instead of treating them as procedural costs (which, as a general rule, are borne by the unsuccessful party).

It is suggested, therefore, to constitute a link between customs proceedings leading to destruction and the imposition of storage and destruction costs in civil proceedings directly on the infringer once the infringement is established.

8.5. Do you see a need to harmonise aspects of *secondary use* (e.g. for charity purposes) of infringing goods in the Enforcement Directive?

Hungary has no objections against harmonisation concerning the aspects of secondary use of infringing goods, however the significance of all different aspects i.e. the interests of right holders and of third parties should all be duly considered. Hungary would suggest an optional solution in the Directive to handle this issue.

9. Other issues

9.1. If you have not implemented one or more *optional provisions* of the Enforcement Directive, what were the reasons for that?

The optional provision of *Article 4(d) of the Directive* on providing “professional defense bodies” with the right of enforcement was not transposed into Hungarian law.

General rules on appreciation of evidence are provided for in Articles 3(5) and 206 of Act III of 1952 on the Code of Civil Procedure: the court is free to use any means of evidence that are suitable to establish the factual circumstances of the case and evaluates them according to his or her conviction. IP legislation, apart from some rebuttable presumptions, do not contain special provisions on the appreciation of evidence and the *second sentence of Article 6(1) on sampling* was not explicitly transposed into Hungarian law with Act CLXV of 2005.

The data received, however, indicates that in practice, courts do apply the rule that a reasonable sample of a substantial number of copies of a work or any other protected object is to be considered by the competent judicial authorities to constitute reasonable evidence (as long as the contrary is not proven), relying on the general provisions mentioned above. This practice is not even linked to the transposition of the Directive: it had been applied before 2006, too.

Based on the above, the courts are usually willing to accept the infringing nature of all copies/products when one illegal piece is presented, provided that the defendant is not proving the contrary. In some cases, however, the court did not deem the same evidence sufficient to demonstrate continuous marketing as well; but repeated sampling (also during the proceedings) may help when this problem arises.

The optional second sentence of *Article 7(1) of the Directive* according to which preservation of evidence may include either the detailed description of the evidence or the physical seizure of the infringing goods, was not transposed.

Article 12 of the Directive on alternative measures amounting to “paying the cost of the infringement” was not implemented either as it was argued that such a provision may be in conflict with the exclusive rights conferred by IP protection on right holders.

9.2. What are the main problems of *cross-border IP enforcement* arising from the current rules on jurisdiction (especially Regulation 44/2001/EC, also known as Brussels I Regulation)?

We do not have information on problems with cross-border IP enforcement.

9.3. What specific problems have you encountered in *collecting evidence in cross-border cases*?

The Metropolitan Court of Budapest indicated that taking testimonies abroad (i.e. when the person bearing the burden of proof appoints a witness staying in another country) is hardly ever effective. Even when the party requests that the witness be heard in front of a foreign court (and not at the embassy or a notary public), that court is often not doing everything it

could to send back a useful testimony to the Hungarian court: if the witness fails to appear, the documents are sent back without attempting summoning him or her again, and even if this is not the case, the replies are often short and not informative as the foreign court (unfamiliar with the details of the case) does not seek clarification from the witness in case of ambiguous or evasive answers.

9.4. Are you aware of any *codes of conduct* that have been signed either between different parties from the private sector or between parties from the private sector and the public sector? If yes, what was the form and subject of these codes?

Article 15/A of the E-commerce Act encourages elaboration of codes of conduct and making these codes available in all relevant languages of the European Economic Area. Furthermore, the same Article provides for dissemination of information about the application of such codes for interested parties (in cooperation with the minister in charge of informatics).

Contributors mentioned the following codes of conduct:

- *Code of Content Providing* (Regulation of operations, ethics, and procedures with respect to content providing, issued by the Hungarian Association of Content Providers, date of the latest supervision: 25 June 2007; http://mte.hu/dokumentumok/mte_kodex_eng.doc).
- *Domain Registration Rules and Procedures* established by the Scientific Association of Hungarian Internet Service Providers Council (explicitly based on Article 15/A of the E-commerce Act).

It should be noted, however, that codes of conduct in the IP field are still not widely used in Hungary, as relevant traditions are missing and the organic development of self-regulation is not a rapid process. Another tendency is that codes of conduct often repeat existing legislative provisions without adding more self-imposed obligations thereto; and heavy financial interests may render the stipulations and sanctions “symbolic”.

9.5. What are the main risks for consumers under the current rules of the Directive? Would it affect consumers adversely if certain rights of the rightholders were to be reinforced (in particular the right to information, the rules on collecting evidence etc.)?

There is no particular risk factor affecting consumers stemming from the present wording of the Enforcement Directive.

9.4. Is there *anything else* that should be addressed in the review of the Enforcement Directive?

Client-attorney privilege and right of information

The *epi* (Institute of Professional Representatives before the European Patent Office) and its Hungarian members have raised the issue of *client-attorney privilege*. In their view the current disparities in Member States’ laws may lead to situations where the court’s order to provide information results in disclosure of confidential communications between the IP

attorney and the client, therefore they would see it desirable that the Directive expressly excludes this type of information from the scope of Article 8.

Publication of the court's decision

Article 15 of the Directive (and national law implementing it) only provides for the possibility to request the publication of the court's decision to *applicants*, which create an unjustified imbalance in the position of parties. *Defendants should also be entitled to request the publication of judgments in their favour* (at least in cases where the plaintiff made such a claim but the infringement was not established).

Budapest, 28 March 2011