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ENLARGEMENT OF THE EUROPEAN UNION: 
TRADE MARK ISSUES IN HUNGARY 
AND OTHER NEW EU STATES

By Dr. Éva Szigeti and Dr. Zsófia Klauber*

I. INTRODUCTION

On May 1, 2004, ten new countries became members of the EU. The countries are Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia. Never has an enlargement exercise involved so many countries. The EU grew from 15 to 25 countries and from 380 to 455 million people. Up to 10 new languages could be added to the present 11 official languages of the Union.

It is also the first time the EU has enlarged since the CTM (Community Trade Mark) became a reality. Solutions, therefore, had to be found to a number of important questions, such as what to do with pre-existing CTMs, languages and the like. Furthermore, enlargement will have important consequences for OHIM and the national trade mark offices of the candidate countries.

II. AUTOMATIC EXTENSION OF CTMS

The first question one asks when thinking about enlargement is what will happen with pre-existing trade marks? The answer everybody comes to after a while is that the pre-existing rights must extend to the entire new EU territory and solutions must be found in case of conflicts after such extension.

During the negotiations on this subject, this was the agreed upon solution. All pre-existing CTMs (both registered and pending) will be automatically extended to the territory of the new Member States as from the date of accession. Pre-existing CTMs mean those applied for before the date of accession of the new Member States. In other words, it is irrelevant, for the status of the earlier CTM, whether or not it has been registered. The negotiators have applied the principle that the law of the date of filing remains to be applied to CTMs for as long as they exist.

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“Automatically extended” also means that no further action has to be undertaken, either on the part of the CTM owner or applicant, or OHIM. One, therefore, does not have to ask for an extension or pay any additional fee. It is worth noting that one could not even avoid extension of CTMs.

The extension of the EU is thus a great opportunity for trade mark owners to obtain an extended geographical protection for free.

III. NO CANCELLATION OF PRE-EXISTING CTMs

Not only will CTMs be extended automatically, but they will also be “grandfathered” by the accession act. This means that extended CTMs cannot be cancelled on grounds—absolute or relative—that exist only because of the accession of new Member States. Therefore, an extended CTM will not be cancelled because a national trade mark in one of the new Member States is identical.

Neither will an extended CTM be cancelled because it is descriptive in one of the new languages. This is the logical consequence of the principle of the application of the law of the time of filing. Therefore, if a trade mark was filed pre-enlargement, it will be examined in the then 11 official languages of the EU to verify whether any of the absolute grounds listed in Article 7 of the Community Trade Mark Regulation (CTMR) would stand in the way of registration. For example, if a CTM is descriptive (e.g., in Hungarian) it cannot be refused by the Examiner on that basis because this language was not one of the official ones of the Union. It would thus have been illogical to allow cancellation later on such grounds.1

IV. ABSOLUTE GROUNDS FOR REFUSING REGISTRATION IN THE NEW MEMBER STATES

If certain absolute grounds for refusing registration already exist in the acceding countries, they may prevent the registration of a CTM even before accession. Such grounds include, for example, geographical indications of origin or national sovereign emblems. New absolute grounds for refusing registration (e.g., where a CTM is descriptive in the language of a new Member State) will only apply after accession.

New absolute grounds for refusal will not constitute grounds for refusing a pending and automatically extended CTM,

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irrespective of whether the application has already been examined by OHIM. Nor can new absolute grounds for refusal lead to the invalidation of a CTM that is already registered.

Article 12 of the CTMR protects the interests of third party users of a CTM that, in a new Member State, is descriptive, non-distinctive or purely generic. If the CTM is deceptive or violates public policy or morality in a new Member State, its use can be prohibited in that Member State under Article 106 (2) of the CTMR.

On absolute grounds for refusal, it will be possible to prevent the use of certain CTMs (e.g., in Hungary’s territory) under Article 106 of the CTMR. That Article provides for the ability to prohibit the use of a CTM to the extent the use of a national trade mark may be prohibited under the law of the Member State in question or under Community law. However, CTMs that were liable to be declared invalid before Hungary’s accession will remain so after accession. Thus, on new grounds for refusal, i.e., on grounds that are exclusively related to Hungary in one way or the other and that did not exist on the date of application of a given CTM, there will only be a possibility to prevent the use, in Hungary, of that CTM in accordance with Article 106 of the CTMR. On the other hand, CTMs that, at present, must not be registered or must be declared invalid will continue to be refused or declared invalid for the whole territory of the European Union after Hungary’s accession, too. This latter principle will be applied regardless of the fact that some presently existing absolute grounds in question might somehow be related to Hungary.

V. EARLIER RIGHTS IN THE NEW MEMBER STATES

The owners of earlier registered and unregistered rights in the new Member States may prevent the use of an extended CTM within their territory from the date of accession. Earlier registered rights are rights that were registered or applied for in the relevant new Member State before accession or which claim priority from a pre-accession application. Earlier unregistered rights are rights that were used or established in the general course of trade before accession. Article 107 of the CTMR also enables the owners of earlier rights of local importance to oppose the use of a CTM in the area in which this earlier right is protected, insofar as this is permissible under the law of the relevant new Member State.

The owners of earlier CTMs cannot prevent the use of intellectual property rights already existing in the new Member States before accession. In particular, they are exposed to the risk of third parties registering national trade marks in the acceding countries before accession, in order to prevent use of the extended CTMs in the accession area after enlargement, or to offer them for
sale to the CTM owners. To discourage such bad faith registrations, it was agreed during the accession negotiations that the owners of earlier rights should be prevented from challenging the use of a CTM in the relevant Member State if the earlier rights are themselves invalid or liable to challenge or have been acquired in bad faith. However, there is still disagreement as to the conditions under which bad faith will be assumed. A non-binding agreement has been concluded, according to which OHIM and the national trade mark offices will exchange information for the purpose of recognizing conflicts at an early stage and enabling the owners of CTMs to investigate, as quickly as possible, whether national applications were made in bad faith. Sec. 3(1)(c) of the Hungarian Trade Mark Act (1997) excludes from protection marks applied for in bad faith.

Some CTM owners considered whether to create earlier rights in the acceding countries by registering their marks at the relevant national trade mark registries in order to avoid the possibility of having to “buy back” their own trade marks from third parties. This was a pragmatic approach that recognized the difficulties involved in proving that an applicant was acting in bad faith, in circumstances where national courts may have a tendency to favor domestic trade mark owners. Earlier rights in the new Member States will not confer the right to oppose a CTM registration, or to request its invalidation, unless the date of the application for registration of the CTM or, where relevant, the priority date, is within the six months immediately preceding accession. The objection can be filed before or after accession provided that (in the case of oppositions) the three-month opposition period has not expired. It will not be sufficient that the earlier rights exist at the date of the accession; they must actually predate the CTM application being challenged. The right to object will be excluded if the earlier right was acquired in bad faith.

In contrast, CTM owners have no right of objection against national trade marks that are registered in the new Member States at the time of accession. This was another reason to consider applying to register one’s marks in the acceding Member States.

Hence, key to the operation of the whole extension mechanism is whether trade mark rights are acquired in good or bad faith. Those holders of earlier national trade marks or other earlier rights will be allowed to oppose the use of a given CTM in Hungary only if they acquired those rights in good faith. In this context it seems to matter if the earlier national trade mark has a priority date earlier than that of the CTM. If this is the case, the good faith of the applicant cannot be questioned solely based on the mere existence of a later CTM. On the other hand, if a national trade mark is registered or applied for before the date of Hungary’s EU
accession but after the date of priority of a conflicting CTM, the question whether the applicant is acting in bad faith must be examined.

Unlike the CTMR, which identifies bad faith only as an absolute ground for invalidity, the Hungarian Trade Mark Act provides for the possibility of filtering out such bad faith applications even in the registration procedure [Sec. 61(2a)] as the applicant’s bad faith is not only an absolute ground for invalidity, but also an absolute ground for refusal. Such bad faith filings could be challenged by CTM owners even prior to Hungary’s EU accession. Bad faith of the applicant cannot, however, be presumed by the Office. There is no presumption of bad faith under any circumstances.

As to remedies available for a CTM owner, reference should be made to the possibility of filing observations under Sec. 58 of the Hungarian Trade Mark Act. In respect of absolute grounds for refusal, such as an application in bad faith, any person may file observations with the Hungarian Patent Office stating that the sign or the application does not comply with the requirements of registrability. Observations must be taken into consideration when the requirement referred to in the observations is examined [Sec. 58(3)]. The person filing the observations is not a party to the procedure. Nevertheless, the individual is notified of the outcome of the observations by the communication of the decision on the registration of the contested mark [Sec. 58(4)].

The Hungarian Patent Office carries out substantial examination as to all requirements of registrability. Therefore, ex officio examination includes examination as to application in bad faith, too. However, it must be noted that under normal circumstances, the Office is not in a position to be informed about the mark having been applied for registration in bad faith in the course of the procedure unless observations to such effect are made, as it is not possible under the Act for the Office to apply a presumption of bad faith application.

Because, until recently, there was no possibility in Hungarian trade mark law for opposition, the only remedy apart from observations was filing a request for the cancellation of the mark with the Hungarian Patent Office, as bad faith application is also a ground for cancellation. Cancellation may be requested only before the Office. The decision taken by the three-member panel of the Office in the cancellation procedure may be challenged by requesting the review of the decision by the Metropolitan Court.²

By an amendment to the Trade Mark Act No. XI of 1997, an opposition system will be enacted as of May 1, 2004. Bad faith filings will constitute legal grounds for observation.

VI. LEGISLATIVE PROVISIONS RELATING TO BAD FAITH IN HUNGARY

In Hungarian trade mark law, the “bad faith” provision was introduced in 1997 as the trade mark law was harmonized with the European Commission’s Directive No. 89/104/EEC. According to Art. 3(1)(c) of the Trade Mark Act of 1997, effective as from July 1, 1997, it is an absolute ground for refusal/invalidity if the application/registration was applied for in bad faith. No other “bad faith” provision can be found in the Act.

So, contrary to the CTM system, as explained above, the Hungarian Patent Office may reject an application filed in bad faith, either ex officio or upon observations filed by anybody. After registration, anybody may request (actio popularis) the cancellation (invalidation) of a registration on the ground that the application was filed in bad faith.

In conformity with basic principles of Hungarian Civil Law, there is a presumption of good faith. Consequently, in application proceedings, the Patent Office must substantiate in the reasoning of a rejecting decision why the applicant acted in bad faith and, in inter partes proceedings, the petitioner alleging bad faith must provide evidence on applicant’s bad faith at the filing.

VII. COURT PRACTICE IN “BAD FAITH” CASES

Bad faith as a ground for refusal of a trade mark application was introduced by the new Trade Mark Act. A sign shall not be granted trade mark protection if its registration was applied for in bad faith or if the representative or agent applies for registration in his own name, without the authorization of the proprietor. Since the Trade Mark Act entered into force, many cases have been brought regarding the application of “in bad faith” as a relative ground for refusal.

One such case is Griffin L.L.C., United States of America v. A.B.K. & K. Ltd., Hungary.3 In that case, A.B.K. & K. owned a trade mark registration for the mark KOCIDE as early as November of 1996. Griffin L.L.C. started a cancellation procedure before the Hungarian Patent Office, claiming cancellation of the mark on the basis of prior use dating back to 1985, as well on the

3. Decision No.3.Pk.23339/200 by the Metropolitan Court of December 20, 2000, KOCIDE.
basis that A.B.K. & K. obtained the registration in bad faith. The
daughter company of the claimant had had a business relationship
with the respondent but, in the view of A.B.K. & K., that did not
satisfy the criteria of finding bad faith.

The Patent Office found that A.B.K. & K. had acted in bad
faith when filing the corresponding application because it was
aware of the fact that either Griffin L.L.C. or its licensee(s) had
rights in the mark. The Patent Office was of the opinion that
A.B.K. & K.’s intention was inevitably dishonest, and this could
justify the finding of bad faith. It cancelled the challenged trade
mark of A.B.K. & K., and the owner of the mark filed an appeal to
the Metropolitan Court, stating that the existing business
relationship with the daughter company of Griffin L.L.C. alone
could not be enough for finding bad faith.

The Metropolitan Court found in favor of Griffin L.L.C.,
pointing out that the claimant had proved A.B.K. & K. had a long-
time business relationship with its daughter company and knew
about the source and manufacturer of KOCIDE branded products.
Therefore, obtaining trade mark rights in its own name under such
circumstances indicated that A.B.K. & K.’s conduct was lacking
any honest intention, and that could be enough for finding bad
faith.

In another case, Corel Corporation, Canada v. taktorWEST
Ltd., Hungary, taktorWEST applied for and obtained a
registration for a combined mark CORELDRAW, matching the
combined mark of Corel, for the goods of interest to Corel, namely
software, and, in particular, graphical software. Corel submitted
evidence with respect to use of the unregistered subject mark for a
number of years before taktorWEST obtained its trade mark
registration. taktorWEST did not respond to the request. The
Patent Office found bad faith in the conduct of taktorWEST when
it applied for and obtained the registration of the subject mark.
The Patent Office asserted that the filing of the mark in a form
that was identical to Corel’s trade mark indicated that
taktorWEST had copied the subject mark (e.g., it knew that
somebody else had rights in the corresponding trade mark).
taktorWEST’s registration was cancelled and, as no appeal was
filed, the decision became final.

CHENSON Ltd., Hungary v. Sunnell Ltd., Hungary is
another case that involves the issue of bad faith. Chenson Ltd. had
been manufacturing Chenson branded bags and backpacks since
the early 1990s. Sunnell Ltd. had been the distributor of such

CORELDRAW.
5. Decision of the Metropolitan Court No. 3.Pk.22147/2000 of December 1, 2000,
CHENSON.
products in Hungary since 1992, buying those products through an intermediary dealer. Sunnell obtained a trade mark registration of the mark CHENSON in 1994. Sunnell denied all allegations that it had obtained rights in the mark in bad faith, asserting that, because Chenson failed to register the mark, Sunnell had to obtain the registration because it had invested a substantial amount of money in promoting of such goods.

In the cancellation proceeding, Chenson submitted as evidence an invoice issued to Euronics, Inc. (the dealer through which Sunnell was buying the goods) in 1992 concerning Chenson branded goods. Sunnell had paid the invoice, which was sufficient for the Patent Office and also the Metropolitan Court to find in favor of complainant. It was asserted that, by paying the invoice in the described way, Sunnell certainly knew from where the goods originated, who manufactured Chenson branded goods and who had trade mark rights in the CHENSON mark. It was found that Sunnell's performance was in violation of basic civil law principles, according to which rights can only be obtained in good faith. It was also found that conduct contrary to good faith constitutes bad faith, which led to the cancellation of Sunnell's mark.

Finally, the case of ARANYFÁCÁN Cannery Ltd., Hungary v. Agencja Produkcyjo-Handlowa “HIP” Spółka z.o.o., Poland is of interest concerning the issue of good faith. Aranyfácán Cannery Ltd., a Hungarian company that is the owner of the trade mark ARANYFÁCÁN (i.e., “golden pheasant”) used on tinned tomato mash and juice, initiated a cancellation proceeding against the word trade mark ZLOTY BAZANT in Classes 29 and 32 (used for beer), which had been registered by Agencijy Produkcyjno – Handlowa “HIP” Spółka z.o.o., a Polish company. ZLOTY BAZANT is the Polish translation of ARANYFÁCÁN.

The Hungarian Patent Office cancelled the trade mark registration for ZLOTY BAZANT. The Office argued that the petitioner had stated its intention at the registration of its trade mark that it would distribute products with multilingual texts (its trade mark registration contained text in five different languages). Although Polish did not feature among these languages, it should still not be foreclosed from using its trade mark in the language of the target country. It was established during the proceedings that the respondent knew of the petitioner’s trade mark at the registration of its mark, as it had distributed products bearing the petitioner’s trade mark, although it did not acquire these products directly from the petitioner. If the disputed trade mark were allowed to remain on the register, the petitioner would be deprived

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of the possibility of using the Polish language equivalent. It was of no importance that the petitioner only started using the Polish text on its products after the registration of the respondent’s trade mark.

In addition, the petitioner requested cancellation of the trade mark ZLOTY BAZANT on the ground that a sign may not be registered if there exists a likelihood of confusion on the part of consumers because of its identity with, or similarity to, the earlier trade mark and because of the identity or similarity of the goods or services. The Office established that there existed a likelihood of confusion between the two trade marks. Even though Polish is not an international language, traditional commercial and cultural relations between the two countries should not be disregarded, and Polish is not absolutely unknown to Hungarian consumers, especially considering tourists and people speaking Slavic languages. The Hungarian Patent Office noted:

The two marks mean “golden pheasant” both for people speaking Slavonic in Hungary and for Polish tourists coming to Hungary. At the same time, the Polish wording is understandable for the Hungarian average consumer, as a Slovakian company sells and intensively promotes beer under the mark “Zlaty Bazant”, on which the label indicates the Hungarian wording, too, beside the Slovakian one. There is a very slight difference between the wording of the Slovakian trademark and of the Polish trademark, so the average consumer easily identifies (and mistakes) the trademarks Zloty Bazant, Zlaty Bazant and the Aranyfácán trademarks.

Thus, the confusion was increased by the appearance of the Slovakian beer in the market. With the Hungarian translation of the Slovakian trade mark ZLATY BAZANT (which actually appeared in advertisements and on the product), the meaning of the disputed trade mark became clear for everyone. The identical meaning of the two trade marks may make consumers believe that the Polish trade mark is only the translation of the Hungarian one and that the producers are the same, regardless of the fact that one trade mark contains device elements and the other does not.

VIII. FURTHER CONSIDERATIONS ARISING FROM EU ENLARGEMENT

By May 1, 2004, not only the accessing states but everybody dealing with trade marks must be familiar with the basic principles of the European Trade Mark Harmonization and the procedure of the CTM system. The enlargement of the European Union means that legal disputes from the new member countries can now be referred to the European Court of Justice. It seems obvious that the CTMs’ EU enlargement provisions will cause new
types of legal problems, particularly where the trade mark owners
in the new member countries are faced with infringement of
existing CTMs in their territories.

Another very important change concerns exhaustion of rights:
the legal basis for exhaustion of rights in Europe is the principle of
free movement of goods, contained in Article 28 of the EC Treaty.
It currently applies to existing EU member states and has been
extended to the European Economic Area (EEA) (including
Iceland, Liechtenstein and Norway). The Treaty of Accession
obliges the new member states to apply to become members of the
EEA and the EEA Enlargement Agreement is currently being
ratified by national parliaments with a view to ensuring that it
comes into force simultaneously with enlargement on May 1. This
will mean that, with the exception of pharmaceutical products,
once a product has been lawfully placed on the market in the
enlarged EU/EEA by or with the consent of an IP right holder, the
right holder will not be able to prevent that product being resold
anywhere within the 28 countries comprising the enlarged
EU/EEA.

Right holders should review their distribution systems and
other contractual relationships involving the new member states,
particularly if products sold in the new member states have, until
now, been manufactured with different quality standards or
conform to different regulations. The free flow of such goods into
existing member states could cause confusion in the market and
damage the reputation of the trade mark. Goods placed on the
market in the new member states by, or with the consent of, the
trade mark owners before May 1 will probably not be subject to the
exhaustion rules. There is a risk that companies in the new
member states may be accumulating such goods now in order to
introduce them into the existing member states after May 1,
particularly high-quality and well known branded products, such
as perfumes and cosmetics. Trade mark owners should monitor the
market closely, especially during the period directly following
May 1.

In the new member states, the principle of community
exhaustion of rights will be replacing the principle of national
exhaustion of rights of trade marks, such as in the case of
copyrights and designs. In these countries, the intellectual
property laws have been harmonized with the EC Directives and
Community Trade Marks. Article 7 of the Directive has been
implied in the national laws of the new member states. Council
customs actions against goods suspected of infringing certain
intellectual property rights, is set to enter into force on July 1,
2004, in the European Union, which will then be enlarged to 25
Member States.