LEGAL THEORY AND THE JUDICIAL PRACTICE
OF THE INVALIDITY OF LICENCE AGREEMENTS

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Abstract: The purpose of the paper is to provide an overview of the invalidity rules and case law of licence agreements in the field of copyright law. The rules governing copyright relations are not exclusively governed by the rules of copyright law but are complemented by the rules of civil law as well. The specific grounds for invalidity issues of licence agreements show that these contracts are specific among private law contracts and that the rules applicable to them cannot be brought solely under the Civil Code. This special situation and legal environment are justified by the typically weaker position of the author in the contracting process, consequently, we can find some author-sensitive rules here. The copyright law rules on the invalidity of licence agreements can be found in a mosaic-way, rather than in a concentrated way, as in the Civil Code. The reason for this is also to be found in the regulatory environment, since the Copyright Act only lays down the ‘copyright-focused’ invalidity rules, which can supplement the grounds for invalidity in the Civil Code in cases where the subject matter of the legal relationship is the use of a copyright work. The paper primarily focuses on some ‘general civil law’ issues of invalidity, such as the requirement of written form, the gross disparity in value, or the problems of standard contractual terms and conditions in line with licence agreements. In this sense, I intend to focus on not just the legal theory but show the relevant judicial practice as well.

Keywords: licence agreement, copyright contracts, invalidity, unfair general terms and conditions, gross disparity in values

1. INTRODUCTORY THOUGHTS

The purpose of the paper is to provide an overview of the invalidity rules and case law of licence agreements in the field of copyright law. The rules governing copyright relations are not exclusively governed by the rules of copyright law but are complemented by the rules of civil law as well.

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We can find specific invalidity rules and causes for copyright licence agreements, which show that these kinds of contracts are specific among private law contracts. Consequently, it also means that the applicable rules cannot be brought solely under the *Act V of 2013 on the Civil Code* (henceforward abbreviated as CC) since ‘the author’s position in the contracting process is typically weaker’. (Faludi, 2022, p. 82), but the rules of the *Act LXXVI of 1996 on Copyright Law* (henceforward abbreviated as CA or Copyright Act) shall also be applied.

The emphasis of the specific features and the special autonomy of licence contracts are also reflected in one of Gábor Faludi’s works, which highlights the special nature of these contracts according to the rules of the so-called oeuvre contract (Art. 44 CA), which shall be regarded null and void as a special invalidity type. The framework for the lawful usage of copyright works is laid down in Art. 16(1) of the Copyright Act. According to this strict rule, ‘[o]n the basis of copyright protection, authors have the exclusive right to utilize works in whole or any identifiable part, whether financially or non-financially, and to authorize each and every use’. In light of this rule, the legal literature highlights that ‘it covers the full range of social uses of the work’. (Gyertyánfy, 2000, p. 96) The second sentence of the given Article adds that ‘[u]nless otherwise stipulated in this Act, use permits can be obtained with use contracts’. Therefore, the CA explicitly creates and requires a contractual relationship between the user and the copyright holder. Thus, unlike the previous Copyright Act,\(^1\) it does not allow a unilateral form of copyright consent, but only allows the lawful usage by contract.

According to Art. 42 of the Copyright Act we can define licence agreements as the following: ‘[a]uthors grant licenses for the use of their works based on use contracts, and the users are obliged to pay remuneration in return’. Regarding the conceptual elements, it is worth mentioning that the user is not obliged to use or exploit the work; it is only a right, a possibility for him/her. Therefore, the only obligation is the payment of the fee, regardless of whether (s)he has started using the work or not. The importance and necessity of payment are also emphasized by the judicial practice. In a concrete case (8. Pf. 20.136/2008/5.) the Budapest Court of Appeal emphasized that the negotiation about the payment is one of the necessary, essential elements of the licence agreements.\(^2\) Consequently, if the parties do not agree on this essential element, the contract will not be concluded between them [Art. 6:63(2) CC], so this issue affects the existence of a licence contract and not its validity. The legal literature also stresses the following essential elements: the parties

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1. Act III of 1969 on Copyright Law, Article 13 (1).
2. ‘An essential feature of a licence contract is that the author gives permission to use the work for a fee. In the case of a contract for a future work, if the user accepts the completed work and pays the fee, he also acquires the right to use the work to the extent specified in the contract. Therefore, unless otherwise agreed by the parties, the stipulated fee also covers the consideration for the right acquired under the license and the activity performed.’ (BDT 2008. 1862.)
and the work (which is not necessarily an already existing work). According to the official justification of the CA ‘It is clear what the relevant issues are in the case of licence contracts: these include the identification of the work, the indication of the method of use, and the consideration for the license to use it. It would not be appropriate, and it would be strange to our civil law if the law were specifying such mandatory elements, which absences result in the invalidity of the contract.’

Thus, if the parties do not agree on the essential elements of the contract, it will not be concluded between them, so its invalidity cannot be examined even if it can later be established that there was a reason for invalidity in the contract. (Budapest Court of Appeal 8. Pf. 20.812/2009/6.)

2. THE INVALIDITY RULES OF THE COPYRIGHT ACT

However, the primary aim of the article is the analysis of the invalidity of licence agreements in line with the rules of the Civil Code, it is important to say a few words about the relevant copyright law regulations as well.

Contrary to the concentrated invalidity reasons of the Civil Code, which are in a separate chapter, the invalidity rules concerning licence agreements can be found in the Copyright Act like a ‘mosaic’. The reason for this structure is the regulatory environment because the CA prescribes only the ‘copyright-focused’ invalidity reasons, which are outside the Civil Code. In fact, these rules supplement the basis of invalidity rules, when the subject of the legal relationship is the use of a copyrighted work.

The Copyright Act prescribes – as it was also mentioned – the nullity of an oeuvre contract so that a licence contract in which an author grants a license for the use of an indefinite number of future works is null and void. Furthermore, the Act adds that a license cannot be validly granted for a means of use that is unknown at the time a contract is concluded (Art. 44 CA).

Furthermore, the Copyright Act fixes that a licence agreement is valid only in a written form, with some exceptions (Art. 45 CA), but this issue will be analysed later in the publication in connection with the rules of the Civil Code.

In addition to the two sections, Article 16(4) should be mentioned as an additional ground for invalidity, which, due to the rule of the same formality and the protection of the author’s right to the fee, requires that the waiver of remuneration shall be recorded in a written form. Furthermore, according to Article 41(1e) of the Copyright Act, the contractual provisions that would exclude certain cases [Art. 41(1)–(1d) CA] of free use for the benefit of the blind and visually impaired are void. The ‘mosaic-like’ mentioned above is reinforced by Article 62(4) and Article 84/B(5), which prescribe the grounds for nullity to protect the person lawfully using the database. To protect performers, the Act rules that where a performer is entitled to recurring

3 Licence agreement can be concluded for a future work as well. (Art. 49 and 52 CA), which is not the same as oeuvre contracts, which is null and void. (Art. 44 CA)

4 Official Justification of the Copyright Act (for Art. 42–57).
payments under contract on the fixation of performances with a phonogram producer corresponding to the income from the use of their performances, the performer shall receive remuneration following the fiftieth year calculated from the first day of the year after the year when the phonogram was lawfully published or, failing such publication, the fiftieth year after it was lawfully communicated to the public. Any provision for the deduction of advance payments or any contractually defined deductions shall be null and void [Art. 74/A(3) CA].

3. THE POSSIBLE GROUNDS FOR INVALIDITY UNDER THE CIVIL CODE

According to the relationship between the Civil Code and the Copyright Act, the two Acts shall be applied simultaneously in certain matters. Such an issue is the invalidity of licence agreements, where, although the Copyright Act lays down specific rules, the relevant part of the Civil Code shall also be applied. However, it is also worth noting that not all the invalidity causes of the CC (Art. 6:90–6:107) can be interpreted unambiguously in the context of licence agreements, which situation also reflects the independent nature of licence agreements among civil law contracts.

If we focus on the invalidity reasons of the Civil Code, it may be of particular interest to examine, for example, mistake (Art. 6:90 CC), misrepresentation (Art. 6:91 CC), unfair general terms and conditions (Art. 6:102–103 CC), immoral contracts (Art. 6:96 CC), the gross disparity in value (Art. 6:98 CC) or formal discrepancies (Art. 6:94 CC).

3.1. Gross disparity in values

The gross disparity in values is well known in civil law and it is not completely strange in copyright relations, since it can mostly occur in the field of the usage of works, consequently in licence agreements. According to the civil law rules, in the case of a gross disparity in values between the service and the consideration, the injured party shall be allowed to avoid the contract [Art. 6:98(1) CC]. However, this can occur in copyright relations as well, the real application of it among licence agreements is unusual.

Both the judicial practice and the legal theory emphasize that the real possibility to apply gross disparity in values in line with the rules of the Civil Code cannot be successful in copyright law disputes.

The Budapest Court of Appeal emphasized in a case (Pf. 21.239/2014/7.), that gross disparity between the services can emerge in copyright law relations, but as an invalidity reason, it was not applicable in the concrete case. The court had to adjudicate the issue in a contract for the production and distribution of the figures of a cartoon for plush toys. Therefore, the essence of the contract was the exclusive right to authorize the commercial exploitation of a characteristic and original form contained in a copyright work (in this case a series of cartoons), that is the right to merchandising. (About the merchandising see in detail Tattay, 2009, p. 337; Görög, 2011, p. 20). According to the contract, the plaintiff was entitled to reproduce and distribute the characters for 36 months from the start of production and to sell the
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finished products for a further 6 months after the expiry date. The amount of the licence fee was HUF 100,000 + VAT, for a period of 3 years, but the contract was not signed by one of the rightsholders. The plush figures were seized by the tax authority in that year and then returned to the plaintiff on the condition that they could be marketed only if they obtained the necessary authorization from both rightsholders. In the legal dispute, the plaintiff based the claim on the gross disparity in values, because (s)he referred that had to enter into a new licence contract with the rightsholders for the sale of the seized plush figures, in which (s)he undertook to pay a bigger amount, HUF 1,000,000 + VAT. The plaintiff was finally able to sell 2,500 of the plush toys, most of them at a lower price, and had to destroy some of them. As a result, the sales generated only HUF 2,500,000 so it would have been realistic to stipulate a license fee of HUF 250,000 + VAT, taking into account the standard 10% royalty, which actually exceeded the paid amount by HUF 750,000 + VAT. Consequently, (s)he argued that this resulted in a gross disparity in values between the services, so the contract would be invalid and the overpayment of HUF 750,000 + VAT would be refunded to him. The court highlighted that the circumstances alleged by the plaintiff occurred after the conclusion of the contract. Additionally, the applicant, who knows the specialities of the relevant market, did not calculate with the mentioned circumstances, so they fall within the applicant’s business risk as a market player.

As a summary, we can ascertain, that the element of the business risk in the gross disparity shall also be interpreted differently in licence contracts, since the position of the author and the user in the licence contracts is fundamentally different and, in most cases, they are in a different negotiating position (Nahmias, 2020, p. 157). It follows that the occurrence of risk cannot be interpreted in the case of licence contracts as defined in the Civil Code concerning gross disparity. The Civil Code sets out, as an exception, the case where the party to the contract may have recognized the disproportion or assumed the risk thereof. When interpreting the concept of risk in copyright, it should be emphasized that in the context of the usage of work, the risk of the author should not extend beyond finding a user for his work. This is what the legal literature calls the risk of creation (Gyertyánfy, 2020, p. 155), and it points out that, on the other hand, an investor risk appears on the side of the user, which begins where he can successfully convey the given work to the public. If an author would base his claim on the Art. 6:98 of the Civil Code, the element of risk-taking could eliminate his rights and it would not be in line with the logic and dogmatic of copyright law.

Consequently, it can be ascertained that the author, and in many cases the user as well, will be in a better position if the claim is grounded on the special copyright law institution, the bestseller clause, which can help better their litigation than the gross disparity in values.
3.2. Formal requirements

According to Article 6:4(2), a legal statement can be made orally, in writing or implicitly, which rule is also fundamental in the field of contract law. However, this does not mean that legal provisions, whether the Civil Code or other laws, cannot require the validity of the contract to a written form. A good example of this situation is the licence contract, since the Copyright Act provides that ‘unless otherwise provided by this Act, use contracts shall be put in writing’. [Art. 45(1) CA] The written form is of guarantee-nature (Pogácsás, 2017, p. 43), which is justified on the one hand by the weaker position of the author and on the other hand the possibility of a long duration of copyright protection. As the legal literature mentions an example, e.g. ‘if the author enters into a contract for the publication of his novel at the age of thirty and the term of protection is stipulated as the term of the license, the term of the contract may be longer than one hundred years. Due to its long duration, it would be almost impossible to prove the content of an oral contract.’ (Fejesné et al., 2020, p. 30).

Besides the general requirement of the written form, the CA allows some exceptions. It shall be mentioned that previously only one exception was prescribed in this Article, i.e. when the licence agreement was concluded for publication in a press product, daily newspaper, or periodical. But since the newest amendment of the CA a use contract need not be made in writing if it is concluded for publication in a press product, daily newspaper, or periodical; or for licensing non-exclusive, free use rights defined in the special case by the CA; or for licensing non-exclusive use rights for software and database recognized as a collection of works; or by accepting the author’s offer for licensing non-exclusive, free use rights for non-specific or for an indefinite number of persons.

So, before the latest amendment of the CA, there was only one exception. Therefore, we can find only such judicial decisions yet, which deals, dealt with this issue. In connection with this exceptional case, a decision of the Budapest Court of Appeal emphasized that ‘[i]f the licence agreement relates to publication in a daily newspaper or magazine, its written form is not a mandatory requirement’. (BDT 2006.1467.)

Besides the legal consequence of nullity, the legal literature emphasizes that ‘[t]he obligation of the written form (…) shall be interpreted broadly. This means that all statements regarding the licence agreement are valid only in writing.’ (Gyertyánfy, 202, p. 306) This interpretation is grounded on the ‘requirement of the

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6 This right extends, in particular, to the case in which works are made accessible to the public by cable or by any other means or in any other manner in a way in which the members of the public can determine individually the time and place of access. [CA. Art 26 (8) second sentence]
same form’ which is well-known in civil law, and it is in line with the protection of the interests of authors. [Art. 6:6(2) CC] Even though the CA contains a mandatory provision on the formality of licence agreements, this rule has not been fully leaked into the contract practice. (See for example Supreme Court Pfv.IV.22.317/2011/6., Budapest Court of Appeal 8. Pf.21.422/2010/3., Budapest Court of Appeal 8. Pf.20.394/2016/3., Szombathely Tribunal 17. P.20.663/2014/36/L., Szombathely Tribunal G.40.003/2016/7., Debrecen Court of Appeal Pf.I.20.634/2016/6., Budapest Court of Appeal Pf.21.817/2009/6., BDT 2019.3989.)

In line with the formal requirement the CA regulates the issue of concluding the contracts by electronic means, but only in the field of collective rights management. According to the Art. 45(3) of the CA, a licence agreement between a collective management organisation and a user may be concluded electronically if the collective management organisation is subject to a legal statement made in advance by the collective management organisation and the user prescribing the use of electronic means, and the licence contract is entered into by way of electronic means as instructed by said legal statement. The contract so executed shall be construed to have been made in writing.

According to the rules of the Civil Code, if a contract is null because of any breach of formal requirements, it shall become valid by acceptance of performance, up to the extent performed [Art. 6:94(1) CC], which regulation shall also be applied in the case of licence agreements as well.

3.3. Unfair general terms and conditions

According to the Civil Code, a contract can be concluded by general terms and conditions as one of the special ways of entering into a contract (Art. 6:77–6:81 CC). The application of general terms and conditions is an essential part of economic life, as individual bargaining would make it impossible to provide products and services on a large scale. However, it is acknowledged, that there are some dangers in using them, since the guarantees of the classical contracting mechanism and the bargaining process are delayed, consequently, the contractual balance is breaking. (Török, 2010, p. 81) In other words, it can be said, that ‘the classification of a system of contract terms as general terms and conditions is a central issue with neuralgic elements in the legal sense of the contract’. (Leszkoven, 2014, p. 3)

The role of the general terms and conditions is also important in the mechanism for concluding the licence contract, as they are also used in copyright cases in many cases. Nowadays, the use of software or access to other computer programs takes place almost without exception electronically and on general terms and conditions,

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7 According to the Art. 6:6 of the CC, if a legal statement has to be made in a specific form determined by law or by agreement of the parties, the legal statement shall be considered valid only if made in that form. If a legal statement is considered valid only if made in a specific form, it shall be amended, confirmed, withdrawn and challenged, and the amendment and termination of any legal relationship entered into under such legal statement shall be made in that form as well.
which can be regarded as an automated form of concluding contracts. (Németh, 2018, p. 12) In such cases, the authorization may be for commercial and for non-commercial purposes as well. The legal literature emphasizes that – taking into account the provisions of the Civil Code (Art. 6:82–6:85 CC), such cases should also be considered as a written contract, so writing is not required in a strictly classical sense. (Fejesné et al., 2020, p. 33)

Both the judicial practice and the legal literature highlight that in the case of general terms and conditions, the other party has no real possibility to participate in the establishment of the content of the contract, because of the lack of the classical bargaining process. (Leszkoven, 2014, p. 6)

If we overview the invalidity rules in line with the general terms and conditions, they can be divided into two groups based on the mode of invalidity. (Barzó, 2015, p. 187) In the case of unfair general terms and conditions, if it is a part of a non-consumer contract, the injured party can contest it [Art. 6:102(5) CC]. If the unfair contract term has been incorporated into a consumer contract, i.e. when a consumer and a business party conclude the contract with each other, then it shall be null and void. In this case, nullity may be invoked in favour of the consumer [Art. 6:102(5) CC]. In this context, it is necessary to determine whether a licence contract constitutes a contract between a consumer and a business. If so, the unfair terms and conditions shall be regarded as null, due to the consumer contract nature. If the answer is no, they can be contested by the injured party, typically the author. The question is interesting and significant. In the legal literature, we can find numerous works which deal with and analyse the common points of consumer protection and intellectual property law. Other works pay attention to the relationship between consumer protection and digitalization (Barta, 2020), which can also affect IP law. The literature emphasizes that indirect consumer protection regulations may arise in intellectual property law in several ways and some direct consumer protection regulations can be found primarily in the field of industrial property law (Szilágyi, 2021). It is also highlighted that the link between consumer protection and copyright law can also be established, even if it is not as organic and direct as we can see in industrial property law, especially in trademark law. (Csécsy, 2015, p. 107). György Csécsy mentions in his work, that ‘[a]ccording to the legal environment of copyright law, the conclusion can be drawn, that we cannot find any direct consumer protection rules, only some indirect provisions’. (Csécsy, 2015, p. 108) We largely agree with this thought and it also shall be stressed, that, in our view, authors can not be regarded as consumers.

While it is true that in many cases, authors are in a vulnerable position vis-à-vis the user (e.g., if the young, beginner author concludes a contract with a large book publisher), if we look at the legal concepts, the notion of the author cannot be met with the definition of the consumer without any concerns. According to the Civil Code, ‘consumer’ shall mean any natural person acting for purposes that are outside his trade, business, or profession. [Point 3, Art. 8:1(1) CC] Neither the concept of consumer fixed in the Act on Consumer Protection is met with the notion of the author. According to the Consumer Protection Act (Act CLV of 1997 on Consumer
Protection, hereinafter CPA), the consumer shall mean any natural person who is acting for purposes of purchasing, ordering, receiving, and using goods or services which are outside his trade, business or profession, or who is the target of any representation or commercial communication directly connected with a product. (Point a) Art. 2 CPA) If we analyse the definitions, it can be stated, that the author is not a person, who is acting for purposes that are outside his trade, business, or profession.

Consequently, if we turn back to the original question: according to our point of view, authors cannot be regarded as consumers, so licence agreements cannot be qualified as consumer contracts. Thus, if the licence agreement contains any unfair general terms and conditions, it will not be null ipso iure, but the author, as the injured party, can contest it.

4. THE LEGAL CONSEQUENCES OF AN INVALID LICENCE AGREEMENT

The legal consequences of the invalidity of contracts prescribed by the Civil Code (Art. 6:108–6:114) shall also be applied in the case of the invalidity of licence agreements. However, their practical application in a concrete copyright dispute is already a more interesting question. From the point of view of copyright law, the essential consequence of an invalid licence contract is that in this case the user is not entitled to use the given work and it (s)he does not have permission, the use is not considered lawful, and it will result in a copyright infringement. On the one hand, it is in line with the rules of the Civil Code, since according to the Art. 6:108(1), no right may be established, and performance may not be demanded on the basis of an invalid contract. Consequently, rights incorporated in the contracts are not displayed on the user and are not entitled to use the work.

On the other hand, it is grounded on Art. 16(6) of the Copyright Act, which prescribes that use is construed as illegitimate especially if the law or the entitled person does not grant authorization for it in a contract or if the user makes use of the work beyond the limits of its entitlement. In this case, the legal consequences are fixed in the Art. 94 of the CA shall be applied.

The further legal consequences listed in the Civil Code are the declaring a contract valid by court ruling with retroactive effect, the validity of a contract by actions of the parties, in integrum restitution, and the payment for monetary value for unjust enrichment.

According to the Civil Code, in connection with an invalid contract, each party has the right to reclaim the service (s)he has provided from the other party in kind if that party also returns the service he has received in kind. The obligation to return what was received applies to the party requesting restitution irrespective of whether the time of prescription or the duration of adverse possession has lapsed. In the process of restitution, the original value-service ratio must be maintained. (Art. 6:112 CC) However, the legal literature emphasizes that it is necessary to examine whether there was a license from the rightsholder for the usage of the work. It is a vital issue, whether there was a licence contract, because if it was, the court shall take into
account it when applying the legal consequences, whether the user has started using the work. It means in the practice, that legal consequence of *in integrum restitutio* can only be applied until the user does not start the usage of the work. (Gyertyánfy, 2020, p. 320) This feature shows again the special nature of copyright law contracts and points out the irreversible nature of licence agreements. The situation is a little bit different if the user started the usage of the work. The former judicial practice was on the standpoint, that in such cases the contract shall be declared effective, and the parties shall settle the values. (BH 2017.341.)

However, according to the current Civil Code, the court may declare an invalid contract valid with retroactive effect to the date of conclusion of the contract if the harm resulting from invalidity can be eliminated by the amendment of the contract to that effect; or the reason for invalidity no longer applies. (Art. 6:110 CC)

In copyright disputes, the elimination of a harm of interest can appear in various ways. We shall take into consideration the role of moral rights in such situations as well, because the personal relationship between the author and his work can be a centre point in the harm of interests.

Just as in every contract, an invalid licence agreement can also become valid by the actions of the parties. [Art. 6:111(1) CC] In practice, this can happen in several cases, since, for example, if the parties put in writing their previously oral licence agreement, this will remedy the error. One of the main reasons for disputes over the use of copyrighted works is that the parties do not cover the legal relationship to a precise contractual framework or that the oral agreement is often not fixed in writing, as it is often considered an unnecessary formality or distrust. It would be worthwhile to be aware in practice that the conclusion of contracts and the precise fixation of their content are not a sign of mistrust, or legal inconvenience but the interests of both parties.

5. CLOSING REMARKS

In this publication, we summarized the most significant regulations of the Copyright Act in line with the invalidity of licence agreements. Besides this summary, we analysed those invalidity reasons prescribed by the Civil Code, which can be relevant in copyright licence relationships as well.

According to our point of view, the unfair general terms and conditions are especially significant in copyright law relations as well, since nowadays most licence agreements are concluded in this way. It is also worth mentioning that general terms and conditions are applied mostly by the users in their agreements, but it is not excluded either, that authors use standard contract terms to grant the licence. For example, well-known and respected authors also use this method of concluding contracts. It is also worth emphasizing, that even if the user applies standardized contracts, which contain unfair contract terms, in our point of view, the author cannot be regarded as a consumer, therefore it results in only avoidance, not nullity.

We also have seen that gross disparity can also emerge in copyright economic relations, however gross disparity in value is not the best way to protect the interest
of authors or other rightsholders, because of the element of business risk, which shall be interpreted in a special way in copyright law legal relationships.

Finally, it is also self-evident, that most of the invalidity-related copyright legal disputes arise from the problem of the lack of written form, which is highlighted not only by the Civil Code, but by the Copyright Act as well. This is also the reason why this ground for invalidity is the most easily interpreted in the case of licence contracts.

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