

Terminating Licences of IP Rights (Switzerland)

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A Practice Note discussing the key legal issues that may arise under Swiss law when terminating a licence of intellectual property (IP) rights. This Note forms part of a suite of country-specific resources that covers global jurisdictions (see *Terminating Licenses of IP Rights Toolkit (International)*). This Note helps in-house lawyers and private practice attorneys to understand whether, when, and how to terminate an IP licence under the laws of Switzerland and provides measures to manage the associated risks.

Termination is part of the life cycle of every intellectual property (IP) licence. Most businesses license IP rights, whether as licensor, licensee, or both.

The governing law of the licence is significant as the rules and procedures for terminating IP licences vary between global jurisdictions. Under Swiss law, licence agreements are *sui generis* contracts for which statutory law does not provide a comprehensive set of rules. The parties are free to agree on most aspects of the licence. However, they are restricted by a few mandatory provisions and case law established by the Federal Supreme Court, which provide unique features of Swiss laws.

This Note considers the most common termination scenarios, including expiry of the licence and termination for cause and for convenience. It explains:

- Common contractual triggers for termination.
- Rights to remedy a breach.
- How to serve a notice of termination.
- The steps to consider following termination.
- The effect of termination of a licence on any sub-licences.
- To view and customise a chart comparing the approach of different jurisdictions towards the termination of IP licences, see *Quick Compare Chart, Terminating Licenses of IP Rights*.

For more information on licensing IP rights in different jurisdictions, see *Practice Note, Licensing of Intellectual Property Rights*.

For a collection of Global resources on licensing IP rights, see *Intellectual Property Licensing Toolkit (Global)*.

Expiry

The contracting parties can determine the term of the licence (for perpetual licences, see *Perpetual or Irrevocable Licences*). A licence agreement automatically terminates when the term stipulated in the agreement ends. The parties do not have to take any additional action, unless the agreement provides otherwise (for example, automatic renewal unless either party gives notice in time).

Generally, if the licence agreement does not explicitly stipulate a fixed term and the parties' intention regarding the term is not apparent after interpreting the agreed terms, then the licence agreement expires when all licensed IP rights expire or are found invalid (see *Termination Due to Invalidity or Expiry of IP Rights*).

Ordinary and Extraordinary Termination

Swiss doctrine distinguishes between ordinary and extraordinary termination of contracts:

- **Ordinary termination:** the termination of the contract in the manner provided by the parties or by law, irrespective of the existence of special circumstances disturbing the performance of the contract. For example, a contractual termination right for convenience on observing a certain notice period.
- **Extraordinary termination:** the premature termination of the contract due to exceptional circumstances. For example:
 - termination for breach;
 - termination following a change of control; or
 - termination due to the insolvency or bankruptcy of a party.

Circumstances Where a Party Can Terminate a Licence

The parties are, in principle, free to agree the contractual terms for the termination of the licence agreement, including, for example:

- The grounds for termination (termination for convenience or specific cause).
- The required form and notice periods.
- The effects of the termination.

Additionally, and irrespective of the parties' agreement on termination rights, according to the Federal Supreme Court's case law, any long-term contract can be extraordinarily terminated for important reasons (see *Federal Supreme Court, First Civil Chamber, 5 April 2012, 4A_589/2011*). These important reasons require grounds that would render the continuation of the agreement unacceptable and unreasonable. The threshold for important reasons is high. In principle, any contract providing for continuing obligations may count as a long-term contract. However, the longer a party is bound to a contract, the more likely it is that there are important reasons rendering the continuation unreasonable.

This termination right is mandatory: the parties cannot waive it in the licence terms. In practice, to have more legal certainty with respect to termination events, the parties can stipulate in advance events that they do (or do not) consider to constitute important reasons. Although a list of important reasons in the agreement is never exhaustive, it frames the parties' intentions of what may (or may not) be considered an important reason. The Swiss courts generally respect the parties' choices about the definition of important reasons.

Termination on Reasonable Notice

If the licence agreement is concluded for an unspecified duration and does not provide for any ordinary termination right for convenience (see *Ordinary and Extraordinary Termination*), then the prevailing legal doctrine is that the parties have an ordinary termination right on reasonable notice.

However, the parties do not have an ordinary termination right on reasonable notice if it is clear from the terms or the interpretation of the agreement that the parties intended to exclude the possibility of ordinary termination, either for:

- The whole duration of the agreement (for example, if the agreement is construed to have a fixed term, then until expiration of the last licensed IP right).
- At least a long initial period.

In a case concerning a patent licence, the Swiss Supreme Court rejected the application of a notice period of six months by analogy with statutory law for termination of simple partnerships (see *Federal Supreme Court, First Civil Chamber, 1 November 1966, 92 II 299*). Rather, the length of the notice period depends on the circumstances of the individual case and the interests of both parties.

Due to the lack of further case law, there is little guidance on the specific factors to consider when determining the applicable notice period on a case-by-case basis. The parties' intention regarding the duration of their relationship and the investments made in view of the licence agreement are likely to be important factors.

Where the licence contains an express right to terminate by giving written notice, see *Termination for Convenience on Written Notice*.

Termination by Agreement

The parties can agree to terminate a licence agreement at any time. They can also agree on the effects of termination, and even deviate from the licence terms.

There is no procedure to follow for termination by agreement. However, an agreement to terminate should generally be in writing to avoid any doubts or uncertainty.

The parties must comply with the form requirements (if any) stipulated in the licence agreement for amendments and other modifications. The parties can agree on any written form requirement for licence agreements (Article 11, *Federal Act on the Amendment of the Swiss Civil Code, SR 220* (Federal Code of Obligations)). However, if the parties choose the written form without further specification (for example, without indicating that email meets the written form requirement), then only the following are compliant:

- A written agreement bearing a handwritten (wet-ink) signature.
- A written agreement bearing a qualified electronic signature (within the meaning of the *Federal Act on Electronic Signatures, URN SR 943.03*).

Termination for Breach

If the agreement does not provide a right to terminate for material breach, then extraordinary termination is still possible under the general Swiss case law for long-term contracts (see *Federal Supreme Court, First Civil Chamber, 5 April 2012*,

4A_589/2011) (see *Circumstances Where a Party Can Terminate a Licence*). A breach of the licence agreement may qualify as an important reason if it renders the continuation of the agreement unacceptable and unreasonable.

According to the Federal Supreme Court's case law, a particularly material breach can immediately render the continuation of the agreement unbearable. However, even minor breaches can qualify as important reasons if:

- They have occurred repeatedly despite warnings.
- It cannot be expected that further warnings will deter the breaching party from further breaching the agreement.

(See Federal Supreme Court, First Civil Chamber, 5 April 2012, *4A_589/2011*.)

The threshold for the existence of important reasons is high, and the courts have considerable discretion in this regard. The parties can include specific termination reasons within the termination clause in a licence agreement and can lower the respective threshold (see *Federal Supreme Court, First Civil Chamber, 8 September 2011, 4A_148/2011*). Therefore, the licence agreement can specify whether the breach of certain terms, conditions, or warranties results in termination.

Additionally, the parties can agree on the applicable termination procedures, including warning requirements and reasonable cure periods before termination. However, the parties cannot exclude the mandatory right to terminate for important reasons or agree on a stricter threshold than provided for by case law.

Termination for breach is not automatic. A party seeking to terminate for breach must serve the other party with a notice of termination. Whether a request for cure of the breach is required before termination depends on the specific circumstances, unless the parties agree otherwise (see Federal Supreme Court, First Civil Chamber, 5 April 2012, *4A_589/2011*). According to case law, a party must announce termination for breach without delay, otherwise the courts are likely to find that the continuation of the licence until the date of its ordinary termination is not unreasonable (see *Federal Supreme Court, First Civil Chamber, 30 September 2003, 4P.100/2003*). Alternatively, a party that delays announcing termination may forfeit their right to terminate.

Termination Under the Terms of the Licence

It is highly advisable for the parties to include a termination clause in the licence agreement that lists:

- Specific grounds for termination.
- The required form and notice periods.
- The effects of termination.

The parties can, in principle, freely agree the terms and conditions of the agreement.

Whether the inclusion of particular grounds for termination excludes any other grounds that may apply depends on the interpretation of the contract. However, the mandatory right to terminate for important reasons cannot be excluded (see *Termination for Breach*).

The parties can also provide in the agreement that the agreement terminates automatically without notice of intent to terminate following certain events (for example, the invalidity of the licensed IP rights). However, when these events occur, it is highly advisable for the terminating party to send a confirmatory notice to the other party stating that the agreement has terminated. Otherwise, if the parties continue to adhere to the agreement despite its automatic termination, then this could be interpreted as a tacit renewal of the licence agreement or the renouncement of the respective termination event.

Termination for Convenience on Written Notice

It is typical to include in a licence agreement a right to terminate for convenience on notice. As exploiting a licence regularly requires the licensee to make considerable investments, termination for convenience is usually only possible after an initial fixed term and by respecting a specific notice period.

If a licence agreement has an unspecified duration and does not provide for any ordinary right to terminate for convenience, then the prevailing legal doctrine is to grant the parties an ordinary termination right on reasonable notice by law. The conditions of this termination right are unclear (see *Termination on Reasonable Notice*). Accordingly, it is advisable to specify the respective terms in the agreement to avoid any ambiguity when determining the applicable notice period.

If the licensee pays an upfront one-time fee and no royalties (for example, under a software licence), it is rather common **not** to stipulate any right to terminate for convenience and the licence agreement expires when all licensed IP rights expire or are found invalid (for perpetual licences, see *Perpetual or Irrevocable Licences*).

Termination Following Change of Control of the Licensee

A licence agreement commonly includes a change of control of the licensee as a trigger allowing for termination. It is recommended to specify in the agreement the events qualifying as a change of control. The parties can include wording limiting this trigger to cases where a competitor of the licensor acquires control over the licensee.

If the licensor has a right to terminate after a change of control but does not wish to use this right, then renegotiating the terms of the licence with the licensee (without exercising the right of termination) is also possible. The parties can agree to amend the licence agreement at any point. However, the parties must comply with any written form requirements stipulated in the licence agreement to make any renegotiated terms binding. For details of the written form requirements, see *Termination by Agreement*.

If the parties have not agreed on a right to terminate following a change of control of the licensee, then legal scholars suggest that, depending on the specific circumstances in question, the further continuation of the agreement may be unbearable for the licensor, allowing for an extraordinary termination for important reasons (Reto Hilty, *Lizenzvertragsrecht* (Stämpfli, p. 726, 2001); Ivan Cherpillod, *La fin des contrats de durée*, vol 10 (CEDICAC, Lausanne, p. 211 f, 1988); Werner Stieger, *Zur Beendigung des Lizenzvertrages nach schweizerischem Recht* (sic!, p. 10, 1999)) (see *Circumstances Where a Party Can Terminate a Licence*).

Termination Due to Invalidity or Expiry of IP Rights

Unless otherwise agreed, the invalidity or expiry of the licensed IP rights terminates a licence or results in its expiry.

There is controversy among legal scholars regarding the legal concept on which that termination or expiry is based (see *Lizenzvertragsrecht*, pp. 868, 920; *Zur Beendigung des Lizenzvertrages nach schweizerischem Recht*, p. 11). However, legal doctrine and case law agree on the respective legal consequences of the invalidity or expiry of the relevant IP rights.

If the licensed IP right is declared invalid or no longer respected by third parties due to its apparent invalidity, then the licensee is released from their **future** payment obligation (see *Federal Supreme Court, First Civil Chamber, 5 April 1990, 116 II 191*). However, the licensee cannot obtain a refund for previously paid royalties.

The Federal Supreme Court held that the mere appearance of validity has actual effects, blocks competition, and helps the licensee gain the same competitive advantage as a valid right for that period of time (Federal Supreme Court, First Civil

Chamber, 5 April 1990, 116 II 191). If the licence covers a portfolio of IP rights, of which only one expires or is found invalid, or if the license also covers know-how (for example, together with patent rights), which remains secret, the question arises whether the licence agreement continues to be in force. It is strongly advisable to stipulate the legal consequences of these scenarios in the licence agreement. Without these terms, a court would have to examine whether:

- The parties' hypothetical intention would have been to continue the agreement had they considered such scenarios.
- If so, whether the parties would likely have agreed to reduce the royalties to be paid for the remaining term.

On termination of the licence agreement, the licensee is generally free to compete with the licensor. Any agreement to the contrary could breach competition law and may therefore be found invalid.

Termination if Licensee Challenges Validity

Non-challenge obligations or respective termination rights raise competition law concerns. Non-challenge clauses are considered anti-competitive, as they can keep alive IP rights that could be declared invalid. The law governing the agreement is irrelevant with respect to these competition issues, which are decided based on the competition law of the countries where the agreement affects the market (in general, the territory that the licence covers).

The Swiss competition authorities rarely deal with licence agreements and the statutory law lacks specific guidance in this regard. European competition law does **not** whitelist (presume to be lawful):

- Non-challenge obligations.
- Termination rights in response to validity challenges.

(Article 5, *Technology Transfer Block Exemption Regulation (316/2014)*.)

In such cases, the effects of the termination right on competition must be carefully reviewed. Non-challenge obligations are hardly ever lawful.

However, **exclusive** licence agreements providing for a right to terminate if the licensee challenges the validity of the licensed IP rights are whitelisted, provided that the market shares of the parties to the licence agreement do not exceed:

- 20% (in the case of an agreement between competitors).
- 30% (in the case of an agreement between non-competitors).

Therefore, exclusive licence agreements often include a right to terminate if the licensee challenges validity.

Termination Due to Insolvency or Bankruptcy of the Licensee

Unless otherwise agreed, a licence agreement does not automatically terminate due to the insolvency or bankruptcy of the licensee. The bankruptcy administration can decide whether it wants to continue to perform the licence agreement (Article 211(2), *Federal Act on Debt Enforcement and Bankruptcy, SR 281.1* (DEBA)).

If the bankruptcy administration decides to continue to fulfil the agreement, that is, to keep exploiting the IP rights and paying the royalties, then the agreement remains in place unaltered. The licensor can demand that the bankruptcy administration provides security for the further performance of the contractual obligations (Article 211(2), DEBA). If the bankruptcy administration

decides not to grant this security, then the licensor can withhold their own performance and eventually withdraw from the licence agreement (Article 83(2), *Federal Code of Obligations*).

If the bankruptcy administration decides not to continue to perform the licence, then the licence terminates. The licensor can then file their claims (in particular, for royalties) in the bankruptcy proceedings. However, these claims are limited to what the licensor would be entitled to until the next possible termination date or the end of the fixed contract term (Article 211a, DEBA).

According to legal scholars, the parties can agree to provide that the licensor can terminate the licence due to the insolvency of the licensee (for example, see Gregor Bühler, *Markenschutzgesetz (MSchG)* (Stämpfli Handkommentar, Article 18, no 47, 2017)). A licence can also include an express provision for the automatic termination of the licence due to the insolvency of the licensee. Even if the parties have not agreed on a specific termination right, the licensee's bankruptcy can be considered an important reason allowing for the extraordinary termination of the licence (*La fin des contrats de durée*, p. 211 f; see also *Circumstances Where a Party Can Terminate a Licence*). To avoid any ambiguity, it is good practice to include an express termination right in a licence agreement regarding various insolvency or bankruptcy events.

Termination Due to Insolvency or Bankruptcy of the Licensor

A licence agreement does not automatically terminate due to the insolvency or bankruptcy of the licensor. The bankruptcy administration can decide whether it wants to continue to perform the licence agreement (Article 211(2), DEBA).

If the bankruptcy administration decides not to continue to perform the agreement, then the licence agreement terminates. The licensee can then file a claim for monetary damages arising out of the terminated agreement (Article 211(1), DEBA). However, these claims are limited to the value of the licence that the licensee would otherwise have been entitled to until the next possible termination date or the end of the fixed contract term (Article 211a, DEBA).

If the bankruptcy administration declares that it wants to continue to fulfil the licence agreement, then the agreement remains in place unaltered. The licensee can demand that the bankruptcy administration provides security (such as a pledge over the IP rights) for the further performance of the contractual obligations (Article 211(2), DEBA). If the bankruptcy administration decides not to grant this security, then the licensee can withhold their own performance (that is, the payment of royalties) and eventually withdraw from the licence agreement (Article 83(2), Federal Code of Obligations).

Registered IP Rights

A licence granted for registered IP rights (that is, trade marks, patents, and designs) can be registered in the respective registers. If the licence is:

- Registered, then anyone who acquires the IP rights from the bankruptcy estate must respect the terms of that licence agreement, which then remains in place.
- Not registered, then the licensee cannot enforce any rights under the licence agreement against a third party acquiring the IP rights, even if the third party was aware of the licence agreement (see *Federal Supreme Court, First Civil Chamber, 15 September 2016, 4A_317/2016*).

Unregistered IP Rights

A licence of unregistered IP rights (for example, copyright or know-how) cannot be registered.

For fully paid-up copyright licences (such as standard software licences), the insolvency and bankruptcy of the licensor has no effect on the licensee's right to continue using the IP rights (Article 12(2), *Federal Act on Copyrights, SR 231.1*).

For other licences of unregistered IP rights, it is arguable whether an acquirer of those rights must respect the licence agreement. Therefore, it is advisable to agree on the effects of bankruptcy in the licence agreement and ensure that the source and object codes remain available to the licensee by providing for a software escrow. Further, in practice, it is advisable to approach the bankruptcy administration proactively and request that the IP rights are not sold without the encumbrance of the licence agreement.

Termination for Any Breach

A licence agreement does not typically provide that a party can terminate a licence immediately without notice after any breach of an obligation. A licence often includes an express limitation on a party's right to terminate for a minor breach, which permits the party in breach to remedy the breach within a defined timeframe.

In principle, the parties can agree otherwise, allowing termination for any breach (however minor). However, a court may assume that this was not the parties' intention unless they stated it unambiguously in the agreement.

Termination for Material Breach

A licence agreement commonly includes a clause allowing termination for a significant, material, or substantial breach. Swiss statutory law does not define these terms. Accordingly, the licence terms can define a material breach. Typically, however, the parties instead include a (non-exhaustive) list of specific examples of possible material breaches in the licence. If there is no definition or list within the licence, then the courts have considerable discretion to interpret material breach from the context.

Even if the parties do not agree on an express right to terminate for material breach, a party can terminate the licence agreement extraordinarily for important reasons if the breach renders the continuation of the agreement unbearable for the terminating party (see *Circumstances Where a Party Can Terminate a Licence*).

The Federal Supreme Court clarified that if the parties had expressly agreed on a right to terminate for material breach, then it is not necessary to establish whether the continuance of the agreement is unbearable for the terminating party (as would be the case if the party relied on the mandatory termination right for important reasons) (see Federal Supreme Court, First Civil Chamber, 8 September 2011, 4A_148/2011). The court must rather construe the term material breach based on the general rules of contract interpretation and establish whether the breach was material.

The court first seeks to establish the real and common intent of the parties. If the court is unable to do so, it seeks, by applying the principle of good faith, to establish the meaning that the parties could and should have given, factoring in all the circumstances.

Unfortunately, there is little guidance from case law about what factors to consider when establishing whether a breach is material. Therefore, it is always recommended to provide this guidance in the agreement if the parties had expressly agreed on a right to terminate for material breach. A clause allowing termination for significant, material, or fundamental breach is similar to a clause for termination for breach. However, unlike a non-significant breach, this clause can provide for immediate termination.

Termination for Repeated Breaches

In principle, a licence can provide that repeated breaches trigger a right to terminate, and the parties can agree on the precise criteria. A licence agreement can even stipulate that a single minor breach is sufficient to terminate the agreement if it is not rectified within a reasonable time. Absent guidance in the agreement regarding repeated breaches, a court would, in any case, try to establish the parties' intention, factoring in all circumstances.

Two occurrences of a breach could be sufficient for a breach to be considered repeated if:

- Each breach is significant.
- The aggrieved party has made clear to the other party that it would not tolerate another breach.

Perpetual or Irrevocable Licences

Swiss law does not recognise perpetual or irrevocable agreements. An agreement cannot last for an unlimited time without the right to terminate as this would qualify as an excessive contractual binding (Article 27, *Civil Code, SR 210*) (see *Federal Supreme Court, First Civil Chamber, 21 June 1988, 114 II 159*). Therefore, parties can unilaterally terminate a long-term licence without cause after a minimum duration. However, the courts determine the minimum duration considering all the circumstances and, in particular, the intensity of the mutual obligations and required investments. The courts have considered durations above 50 years acceptable in the past.

However, legal doctrine and case law permit perpetual software licence agreements under certain circumstances (see *Commercial Court of the Canton of Zurich, 19 December 2016, HG150050-O*). A perpetual software licence:

- Can be treated like the sale of a copy of the software if it is standard (not bespoke or custom) software for which the licensee has paid a one-off payment upfront (with no further recurring royalties or other payments). The licensee can be considered as having obtained title to the specific copy of the software.
- Does not establish continuing obligations on either party.

Partial Termination of a Hybrid Licence (Patent and Know-How)

A licence agreement often provides for the possibility of partial expiration or partial termination. Provided there is an express or implied provision in the agreement permitting partial termination, it is, for example, possible to part-terminate:

- A hybrid licence of patent and know-how.
- A licence covering multiple licensed products or multiple countries as its territory.

Generally, the parties must set out the terms for a partial expiry or termination in the agreement, along with the respective legal consequences.

One scenario is where the licence covers a patent and know-how, of which the patent expires but the know-how remains secret. The question arises whether the licence continues to be in force partially for the know-how but with a reduction of the royalties (corresponding to the reduced commercial value of the licence, if any). If the parties have not explicitly agreed on the relevant terms in the licence agreement and cannot find an amicable solution, then a court considers their hypothetical intention.

Remedying a Breach

In principle, the parties can agree on the circumstances in which the non-breaching party may terminate the licence agreement in the event of a breach.

A licence often includes an express limitation on a party's right to terminate for breach, which permits the party in breach to remedy the breach within a defined time (also known as a cure period). A licence agreement regularly provides different rules for material and minor breaches.

If the licence agreement is silent in this regard, a court considers the parties' hypothetical intention. To avoid the risk of a wrongful termination, it is advisable to grant a reasonable time for rectification, even if the licence terms do not explicitly require it.

If there is a remedy clause in the licence agreement, then the parties should specify the breaches that can and cannot be cured. After the cure period, if the breaching party has not remedied the breach, then the other party can proceed with termination by delivering a termination notice that:

- States that the cure period lapsed without a remedy.
- Lists the post-termination obligations of the breaching party.

Giving Notice of Termination

Typically, a licence agreement specifies how to give a notice of termination or notices in general.

In any case, it is always advisable to provide notice of termination in writing and deliver it by registered mail or courier to avoid disputes about the receipt and validity of notice. A notice of termination only becomes effective if either:

- The other party receives it.
- It is deemed to have been delivered, if the recipient refuses to accept the notice.
- The notice is made available to the recipient (for example, at the post office) and the recipient can collect it (deemed delivery).

Contents of Notice of Termination

Swiss law does not provide specific rules on the contents of the notice of termination.

If a licence agreement prescribes the contents of the notice of termination or the procedure for termination, then a party must comply with these requirements for the notice of termination to be valid.

If the licence agreement is silent on this matter, then a notice of termination should (among other things):

- Unambiguously identify the licence that is the subject of the notice.
- Specify the effective date of termination.
- State the ground for termination.

Saving Defective Notices

In principle, a defective notice cannot be cured, unless the other party accepts the termination.

If the notice was defective and had no effect, then the terminating party can serve another notice of termination correcting the defects. Subsequently, the notice of termination is only effective on receipt of the correct notice, which may affect the notice period.

When Termination Takes Effect

The licence terms usually indicate when termination takes effect.

If notice of termination is given based on an ordinary termination right with a specific notice period, then termination takes effect from the end of the notice period.

If notice of termination is given with immediate effect, whether this is an extraordinary termination for good cause or agreed in the case of an ordinary termination, then termination takes effect when either:

- The other party receives the notice.
- The notice is deemed to have been delivered, at the time the recipient refuses to accept the document.
- At the time it is made available to the recipient (for example, at the post office) and the recipient can collect it (deemed delivery).

Once a party has delivered a correct notice of termination to the other party, it is no longer possible to withdraw that notice. The parties would have to mutually agree that the agreement remains in place, despite the notice of termination.

Waiving a Right to Terminate

In principle, a party can unilaterally waive the right to terminate. However, a party cannot waive the mandatory right to terminate for important reasons (see *Circumstances Where a Party Can Terminate a Licence*).

A party can also lose their right to terminate for cause if it waits too long before serving the notice of termination.

For example, case law requires that a termination for important reasons is announced without delay, otherwise:

- The continuation of the contractual relationship until the date of the ordinary termination is **not** considered unacceptable and unreasonable (see *Federal Supreme Court, First Civil Chamber, 30 September 2003, 4P.100/2003*). So there is no basis for extraordinary termination (see *Ordinary and Extraordinary Termination*).
- The terminating party may forfeit their termination right (see *Termination for Breach*).

A party can claim one ground for termination of a licence while reserving their right to terminate on another ground. For example, if a party breaches the licence agreement, then the other party can (so long as the licence terms provide for the following termination rights) both:

- Ordinarily terminate the licence for convenience by observing the contractual notice period.
- Reserve its right to terminate extraordinarily the agreement with immediate effect for cause if the breach is not cured.

Consequences of Wrongful Termination

A wrongful termination (for example, without due cause) has in principle no effect and the licence agreement remains in full force and effect (see *Federal Supreme Court, First Civil Chamber, 6 March 2007, 4P.243/2006*). If the party wrongfully terminating the licence agreement takes actions that exclude the other party from the benefits of the agreement, then that other party can either or both:

- Seek action for enforcement of the licence agreement.
- Claim compensation for any damages incurred.

Alternatives to Termination

At any time, the parties can end the licence by agreement (see *Termination by Agreement*) or amend the licence terms by mutual consent.

The termination of a licence agreement often results in sunk investments for both parties. Therefore, parties that are willing to maintain their commercial relationship can always negotiate alternatives to termination. For example, the parties can either:

- Renegotiate the terms of the licence agreement to reflect changed circumstances. When amending the licence agreement, the parties must observe form requirements stipulated in the licence agreement (if any).
- Enter into a new licence agreement that expressly replaces the previous agreement.

Generally, an agreement must be complied with even if circumstances change. According to Swiss case law and doctrine, a party to a long-term contract can also request a change of contractual terms based on the legal concept of *clausula rebus sic stantibus* (things thus standing) (see *Federal Supreme Court, First Civil Chamber, 24 April 2001, 127 III 300*). A party can invoke this concept if there is a change of circumstances after the contract's conclusion which:

- Was not foreseeable at that time.
- Results in a serious imbalance between the parties' contractual rights and obligations.

The application of this concept is very limited.

Steps to Take After Termination

Obligations That Survive Termination

A licence agreement typically provides that certain provisions survive termination or expiry. These survival clauses help prevent legal uncertainty. However, provisions that by their nature are intended to survive expiry or termination survive automatically. For example, limitation of liabilities does not become void for conduct related to the licence agreement after termination.

Often, a licence agreement also contains confidentiality undertakings that survive termination (at least for a certain period).

Return and Deletion of Know-How

Following termination, the licensee can no longer use the disclosed know-how. This is an implied term in any contract.

However, a licence agreement regularly explicitly prohibits the further use of know-how. The parties should include in the agreement:

- A clause requiring the recipient of know-how to, after termination, destroy or return, depending on the licensor's preference, all materials containing the licensed know-how.
- A post-contractual obligation concerning the disclosure of confidential information to third parties.

If the know-how becomes public during the term of the licence agreement or after its termination without fault of the licensee, then the licensee can continue to use it. Any agreement between the parties to the contrary would require detailed analysis from a competition law perspective.

Effect of Termination on Stock of Licensed Products Held by Licensee

A licence agreement generally includes terms regarding how parties must deal with stock of licensed products on termination. The parties can agree on a specific sell-off period for the licensee (subject to further payment of royalties) or a right of purchase for the licensor.

If there is no such provision, and a sell-off period does not appear to have been the parties' real intent at the time the agreement was entered into, then the former licensee cannot continue to sell the stock after termination (as this would infringe the IP rights). Further, the licensor is not obliged to purchase the stock of licensed products. To avoid legal uncertainty and respective sunk costs, the licensee is advised to include clear provisions governing the stock of licensed products on termination.

Effect of Termination on Sub-Licences

Legal scholars argue that a sub-licence cannot survive beyond the termination of the head licence (see *Lizenzvertragsrecht*, p. 768). If the head licence terminates, then the licensee can no longer grant sub-licences and the performance of the sub-licence agreement becomes impossible.

The only exception is if the head licence expressly allows for the continuation of a sub-licence on termination, in which case it is transformed into a direct licence between the licensor and sub-licensee. If a licence permits the licensee to grant sub-licences, then it is typical for the licence to require the licensee to ensure that any sub-licences granted terminate automatically on termination of the head licence.

To avoid any possible liability, the licensee is advised to pay attention to the relevant terms in the head licence and sub-licence agreements.

Preparing for a Disputed Termination

The parties can dispute the termination of the licence. In preparation for a disputed termination, the parties should carefully gather evidence documenting the cause for termination. In particular, if a party intends to terminate the agreement for important reasons, for example, due to an alleged breach, it must properly document the other party's relevant conduct and any communications exchanged between the parties regarding the breach.

Further, the terminating party should:

- Carefully analyse the terms of the licence agreement, factoring in the applicable law, to determine whether their termination request is likely to be found admissible.
- Pay particular attention to ensuring that all steps required for the termination are taken in accordance with the licence agreement and applicable law requirements, such as:
 - sending a prior warning (if required);
 - sending the notice of termination in a timely manner to avoid forfeiture of the right of termination; and
 - documenting receipt of the notice of termination.

If a party intends to challenge a termination, claim damages, or take legal action for other remedies due to a wrongful termination, it must ensure that it follows the dispute resolution provisions set out in the licence agreement (if any), which may require mediation or similar arrangements before litigation or arbitration.

Arbitration

In an international licence agreement, the parties regularly agree to arbitration. Switzerland has liberal arbitration rules and considers IP disputes (including questions regarding IP infringement and validity) an arbitrable subject matter. Switzerland is one of the most popular arbitration seats for commercial and IP disputes worldwide: Geneva and Zurich are among the most frequently chosen venues or seats in International Chamber of Commerce (ICC) arbitrations. The most popular arbitration rules agreed to for IP disputes with a connection to Switzerland are the rules of:

- The ICC (*ICC: 2021 Arbitration Rules*).
- The Swiss Arbitration Centre (*Swiss Arbitration: Arbitration Rules*).
- The World Intellectual Property Organization (WIPO) (*WIPO: WIPO Mediation, Arbitration, Expedited Arbitration and Expert Determination Rules*).

Cancellation of Licence at National Registers or Offices

Parties can register a licence granted for registered IP rights (that is, trade marks, patents, and designs) in the respective registers. However, registration is not a prerequisite for the validity of the licence. If a licence is registered, then it must be deleted from the register on termination.

The licensor can only apply for a cancellation of the licence from the Swiss registers if it provides a waiver from the licensee or any other evidence of the termination of the licence. Accordingly, if the licence is to be registered, it is advisable to include an express obligation on the licensee to assist with the cancellation of the licence on termination.

Avoiding Pitfalls

Parties to a licence agreement subject to Swiss law must observe the following recommendations to avoid pitfalls associated with terminating an IP licence:

- Swiss statutory law does not provide for a comprehensive set of rules for licence agreements and allows the parties to freely agree on most aspects of their licence relationship. The parties should make use of their freedom and carefully draft the terms of the licence agreement with respect to the licence's duration and termination, including, among others:
 - the grounds for termination;
 - the effect of termination (for example, for hybrid licences); and
 - the procedure for the form and delivery of notices.
- When licensing multiple IP rights, large portfolios, or a combination of patents and know-how, it is highly recommended to provide specific rules with respect to termination if part of the licensed rights expire or are declared invalid, including rules on the effect on royalties.
- When terminating the licence agreement, the parties should carefully:
 - analyse the admissibility of the termination;
 - document the reasons for termination with appropriate evidence; and
 - follow the termination procedures set out in the licence.

END OF DOCUMENT

RESOURCE HISTORY

Law stated date updated following periodic maintenance..

This document has been reviewed by the authors as part of its periodic maintenance to ensure it reflects the current law and market practice on 1 October 2023. There is additional guidance regarding *Termination Following Change of Control of the Licensee*, *Termination Due to Insolvency or Bankruptcy of the Licensee*, and *Effect of Termination on Sub-Licences*.
