The fate of "perpetual" license agreements under Swiss law

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***LALIVE** discusses the status and validity of "perpetual" license agreements under Swiss law and considers whether it is possible for a party to invalidate or terminate them.*

"Perpetual" license agreements are often used in relation to software. Such agreements, allowing licensees to use a given software, without any restriction (other than *e.g.* accessing the source code and modifying the software) against the payment of a single fee, are generally considered to be purchase agreements and not proper license agreements.

However, "perpetual" licenses may also be found in relation to trademarks. Trademarks, in contrast to patents and designs, have an initial duration of 10 years and may be renewed indefinitely. A trademark owner may well grant a "perpetual" right, be it sole, exclusive or non-exclusive, to use a distinctive sign in a given territory, for certain products or services and against a certain remuneration. In this case, the fate of such a "perpetual" right is uncertain under Swiss law: is it literally without a limit in time or can it be invalidated or terminated? and if so, how? This paper briefly touches upon these questions.

Under Swiss law a license agreement is a *sui generis* contract, not specifically regulated by statutory provisions. Pursuant to the principle of contractual freedom, the parties are entitled to agree on the duration of their contracts as well as on the contractual mechanisms for their termination. However, certain rules apply by default or mandatorily; we shall review a few of them hereafter.

First, a license agreement, like any other agreement governed by Swiss law, can be invalidated if its terms are impossible, unlawful or immoral (art. 20 of the Swiss code of obligations ["**CO**"]), if there is a clear discrepancy between the parties' undertakings as a result of one party's exploitation of the other's straitened circumstances, inexperience or thoughtlessness and in case of defect in consent such as error (*in negotio*, *persona*, *quantitate* or *qualitate*), incorrect intermediation, fraud or duress (art. 21 et ss. CO). However, Swiss law does not require due consideration for the contract to be valid.

Second, a license agreement is or becomes invalid if the underlying IP right is (found to be) invalid or expires; in case of a mixed license, *e.g.* covering a patent and know-how, the invalidity or expiration of the licensed patent does not necessarily affect the whole license, which may remain valid as it concerns know-how.

Third, Swiss contract law does not, as a matter of principle, recognize "perpetual" agreements since undertakings without time limits are considered excessively restrictive. Accordingly, any long-term agreement, even entered into between legal entities (and not natural persons), must have a reasonable term or contain a contractual mechanism for termination. If it does not, a judge or an arbitral tribunal must amend it (as closely in

accordance with the parties' intent as possible) to make it compliant with Swiss law. Swiss doctrine does not mention a maximum theoretical duration for trademark licenses, which depends on the specific factual circumstances of each case. One author indicates that, as a rule of thumb, a duration of 15 years would probably not be considered excessive. Another author is of the view that, when a trademark license contains no term, a duration equivalent to the initial period of registration of the mark (*i.e.* 10 years) plus, if the mark was renewed, the period of the first renewal (*i.e.* 10 additional years) would not be excessive. Amongst other elements, the type of licenses (sole/exclusive/non-exclusive) and the investments made by the licensee – which may suffer losses due to an insufficient period of amortization of its investment – must be taken into account when assessing the appropriate duration of a "perpetual" undertaking.

Fourth, any long-term contract can be terminated for a "good cause", which consists in circumstances rendering the performance of the contract unbearable. The test is whether the terminating party really did lose its confidence in the other party due to a fundamental breach of contract. The threshold is high and the party seeking to terminate must demonstrate that the severity of events is such that remaining bound by the contract has become untenable. By way of an example, the loss of mutual trust between the parties to a patent license agreement due to the late performance by the inventor who had to ensure that his invention would reach the industrially mature stage, was considered as a good cause for termination by the licensee. By contrast, the fact that a licensee is acquired by a third party (change of control) does not generally provide "good cause" for the licensor's termination of a license agreement.

Fifth, any agreement may be amended or even terminated if the circumstances change in a way that renders the performance excessively burdensome for either party (*clausula sic stantibus*), irrespective of a fundamental breach committed by the other party. Such a change must not have been reasonably foreseeable and must not be attributable to the terminating party.

Sixth, if a license agreement was entered into by a consumer, it may be terminated by the latter *e.g.* if concluded at the consumer's home, on public transport or on a public thoroughfare, during a promotional event held in connection with an excursion, by phone (art. 40b CO) or at a stand at a market or trade fair (art. 40c CO).

The fate of license agreements in the context of bankruptcy proceedings is somewhat controversial: pursuant to the main doctrine, the opening of bankruptcy proceedings is usually not a valid ground for termination. There may however be specific cases where the bankruptcy of one party may constitute a good cause for termination.

Finally, in case of assignment of the licensed IP right(s), Swiss law provides that if the license has been recorded in the Swiss trademark registry, the latter passes to the assignee along with the corresponding IP right(s). If the license has not been recorded, it does not. The relativity of contracts thus applies, meaning that the licensee is no longer entitled to use the licensed right. In such a case, the licensor may however be held liable towards the licensee for breach of the license agreement.

In conclusion, there is no such thing as a "*perpetual*" license under Swiss law. This must be borne in mind when drafting, negotiating or renewing any such agreement, as well as when assessing, in the context of a due diligence for instance, the validity of a licence agreement entered into by the target company