

Licensing

Contributing editors

Fiona Nicolson and Claire Smith



2019

GETTING THE
DEAL THROUGH

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Fiona Nicolson and Claire Smith

Bristows LLP

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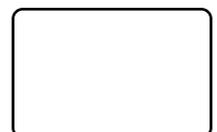


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CONTENTS

Global overview	5	Netherlands	79
Fiona Nicolson and Claire Smith Bristows LLP		Silvie Wertwijn, Micheline Don and Tessa de Mönnink Parker Advocaten	
Australia	7	New Zealand	85
Darron Saltzman and Rodney De Boos Davies Collison Cave Law		Stewart Germann Stewart Germann Law Office	
Brazil	15	Russia	90
Philippe Bhering and Jiuliano Maurer Bhering Advogados		Sergey Medvedev Gorodissky & Partners	
Canada	22	South Africa	97
Daniel R Bereskin and Paul Blizzard Bereskin & Parr LLP		Kevin Dam KISCH IP	
Chile	28	Spain	103
Claudio Magliona, Nicolás Yuraszeck and Carlos Araya García Magliona y Cia Abogados		Javier Fernández-Lasquetty Quintana, Alba Ma López López and Martín Bello Castro Elzaburu, SLP	
Finland	34	Switzerland	110
Patrick Lindgren Advocare Law Office		Lara Dorigo and Peter Ling Lenz & Staehelin	
France	41	Taiwan	117
Emmanuel Schulte Bersay & Associés		Simon Hsiao Wu & Partners	
Germany	48	Thailand	124
Christof Karl Bardehle Pagenberg		Alan Adcock, Siraprapha Rungpry and Kasama Sriwatanakul Tilleke & Gibbins	
India	55	United Kingdom	130
Safir R Anand and Swati Sharma Anand and Anand		Fiona Nicolson, Sophie Lawrance, Claire Smith and Rob Powell Bristows LLP	
Japan	63	United States	137
Kozo Yabe and Takeshi Kanda Yuasa and Hara		Bruce H Bernstein, Michael J Fink and P Branko Pejic Greenblum & Bernstein, PLC	
Korea	68	Vietnam	147
Dong-Hwan Kim and Myung-Cheol Chang Lee International IP & Law Group		Linh Thi Mai Nguyen, Tu Ngoc Trinh, Son Thai Hoang and Chi Lan Dang Tilleke & Gibbins	
Mexico	74		
Ignacio Domínguez Torrado Uhthoff, Gómez Vega & Uhthoff, SC			

Preface

Licensing 2019

Eleventh edition

Getting the Deal Through is delighted to publish the eleventh edition of *Licensing*, which is available in print, as an e-book and online at www.gettingthedealthrough.com.

Getting the Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique **Getting the Deal Through** format, the same key questions are answered by leading practitioners in each of the jurisdictions featured.

Getting the Deal Through titles are published annually in print. Please ensure you are referring to the latest edition or to the online version at www.gettingthedealthrough.com.

Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Getting the Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We would like to thank the contributing editors, Fiona Nicolson and Claire Smith of Bristows LLP for their assistance with this volume. We also extend special thanks to Bruno Floriani of Lapointe Rosenstein Marchand Melançon LLP, who contributed the original format from which the current questionnaire has been derived, and who helped to shape the publication to date.

GETTING THE
DEAL THROUGH 

London
December 2018

Switzerland

Lara Dorigo and Peter Ling

Lenz & Staehelin

Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

A licensor who intends to enter into a licence agreement under Swiss law can do so without establishing a subsidiary or branch office in Switzerland. However, there are no particular restrictions on the establishment of a business entity or a joint venture by foreign licensors in Switzerland, and no filing or regulatory review process applies.

Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.**

It is commonly understood that only intellectual property rights (IPR) can form the subject matter of a (typical) licence agreement. As such, distinctions are primarily made between patent licences (including rights to supplementary protection certificates), software or other copyright licences, trademark licences, design right licences and licences regarding topographies of semiconductor products. When know-how and celebrity or personality features form the subject matter of a licence agreement, the licence is referred to as 'untypical licence' or 'mixed licence', if the licence arrangement also encompasses IPR. Strictly speaking, franchise agreements are not qualified as a type of licence arrangement, but rather as a sales and distribution systems with a licensing component with respect to the products, brands or technologies that are marketed.

With regard to the scope of licence arrangements, a distinction is made between exclusive, sole and non-exclusive licences. Exclusive licences confer all rights in the subject matter of the licence to the licensee. With sole licences the licensor retains the right to use the subject matter of the licence while undertaking not to grant licences to any third parties. In a non-exclusive licensing setup the licensor may grant a limited or unlimited number of additional licences with respect to the same subject matter and the licensee's rights are more limited (eg, no standing to sue and no right to grant sub-licences).

Finally, a distinction can be made between licences freely negotiated between the parties and compulsory licences. Compulsory licences are primarily known in the patent and copyright field.

Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Under Swiss law, licensing agreements are innominate contracts, or more precisely 'sui generis contracts', for which no comprehensive set of specific rules exist in statutory law. The intellectual property laws provide rules for certain aspects of licence agreements such as the rights of joint owners, the right of exclusive licensees to sue or the registration of licence agreements in the IPR registries. For other aspects,

the general provisions of contract law are applicable in addition to certain rules of lease, rental, purchase agreements or of property law that may be applied by analogy. The rules on simple partnerships may play a role in licence arrangements that have company-like features.

Generally speaking, the parties to a licensing arrangement are free to negotiate all aspects of a licence agreement. Where they have not stipulated specific rules, the hypothetical intention of the parties must be determined in the first place, and only in the second place is the above-mentioned legislation applied either directly or by analogy. The parties' freedom to contract is only limited by few mandatory provisions of general contract law (see questions 30 and 31) and by competition law (see questions 26 and 27). Under very specific circumstances, mandatory provisions of agency law could also be applicable by analogy (see question 31).

- 4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

Under Swiss law, there are no specific pre-contractual disclosure obligations that must be respected by the licensor. However, the general obligation of fair dealing and good faith (see question 5) requires each party to disclose information that might influence the decision of the other party to enter into the contract, or to enter into it in certain terms. The Federal Supreme Court has decided that a disclosure obligation exists if the licensor is aware of a concrete and serious risk that the licensed rights be nullified or not granted and that the possibility to use such rights be considerably impacted.

Furthermore, if the licensee has been induced to enter into a licence agreement by fraud of the licensor, it is not bound by such an agreement.

Generally speaking, there is no obligation to register international licensing rights with Swiss authorities (with one exception, see below). However, the parties have the possibility to register the licence in the respective intellectual property registries, which may have certain advantages for the licensee. In particular, a registered licence can also be enforced against any subsequent buyers of the licensed IPR.

As an exception, licences on collective marks need to be registered to be valid.

- 5 Are there any statutorily or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

The principle of good faith and fair dealing is a fundamental principle of Swiss law. It is expressly enacted in article 2 of the Swiss Civil Code (CC), which states that 'Every person is bound to exercise his rights and fulfil his obligations according to the principles of good faith.' This rule has become a general principle of law and plays an essential role in the interpretation and completion of contracts. The fair-dealing obligation already applies to the pre-contractual stage where non-compliance with such a principle can result in liability under the principle of culpa in contrahendo (see question 4 with respect to pre-contractual disclosure obligations).

As regards termination and non-renewal of licence agreements, the principle of good faith can, for instance, be invoked when the termination occurs at an improper time that causes particular harm to the other party without cause. Contrariwise, it appears contrary to Swiss legal principles to force a party to actively renew an agreement because of good faith considerations.

Intellectual property issues

6 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Switzerland is a party to all these international treaties.

7 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

There is no statutory rule that prohibits the conclusion of non-challenge clauses in licence agreements under Swiss law. Pursuant to an older Supreme Court precedent, a prohibition to challenge the licensed rights is allowed and can in some cases even be inferred from the circumstances of the case, even if it is not explicitly contained in the agreement.

The majority of Swiss scholars consider non-challenge clauses to be fundamentally valid under Swiss competition law. Pursuant to a more recent doctrine, however, such clauses can be potentially problematic and prohibited as a matter of competition law.

8 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The expiry or invalidity of an IPR leads to the termination of a licence agreement concerning such a right if the parties have not agreed otherwise. The parties are allowed to agree otherwise and often do so, in particular if several rights are licensed in the same agreement or if additional assets, such as know-how, are licensed.

Save for special circumstances, the licensee is in principle not entitled to be refunded the royalties paid under the licence agreement prior to the underlying right being declared invalid or prior to the invalidity becoming apparent to any third party. Swiss courts consider that the appearance of the validity of the right has an economic value, from which the licensee has benefited during the term of the agreement.

After the termination of the licence agreement, the licensee can freely compete with the licensor, unless the parties have agreed otherwise.

9 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

Foreign applicants must designate an address for service in Switzerland for the notification of any office actions and other communication from the relevant authorities. There are, however, no requirements that are unique to foreigners with regard to the documents to be filed with the Swiss Federal Institute for Intellectual Property (FIIP).

If the applicant for the registration of an IPR claims the priority of a foreign prior right (article 4 of the Paris Convention for the Protection of Industrial Property 1883), the applicant must file the original certificate of registration of the jurisdiction of origin with the FIIP.

10 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Yes. Unregistered IPR (such as copyright) can be licensed under Swiss law.

Unregistered signs, know-how and celebrity or personality features (which are not considered to be IPR) can also form the subject matter of licence agreements ('untypical' licence agreements, see question 2).

11 Are there particular requirements in your jurisdiction to take a security interest in intellectual property?

Under Swiss law, there are no form requirements for licence agreements. Licence agreements are valid even if concluded orally or tacitly.

Licence agreements concerning patents, trademarks, designs and plant varieties can be entered into the respective registers. The registration of the licence makes it opposable to third parties, as explained in question 3.

A pledge of IPR can only be validly entered into in writing. The pledge can (but does not need to) be entered into the respective register. However, similarly to the registration of licences, the registration makes the pledge opposable to third parties.

12 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

The owner of an IPR can always institute proceedings against third parties for infringement without having to join the local licensee to the proceedings. An exception to this rule applies only if the parties agreed otherwise in the licensing agreement, in which case the IPR owner may be contractually prohibited to take action independently.

Any person who holds an exclusive licence into a patent, a trademark, a design (irrespective of whether it is entered into the register) or copyright is entitled to institute infringement proceedings and request financial compensation resulting from the infringement, provided that this is not expressly excluded by the licence agreement. The exclusive licensee can be contractually prohibited from instituting infringement proceedings if this is explicitly mentioned in the licence agreement.

Both exclusive and non-exclusive licensees can join an action for damages filed by the rightsholder in order to claim their own loss or damages.

13 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Trademarks and service marks can be sub-licensed under the conditions set out by the main licence agreement. It is disputed among Swiss legal scholars whether sub-licences can be granted in the absence of explicit contractual provisions. Whether the licensee has the right to grant sub-licences is therefore a matter of contractual interpretation in every specific case (see question 3). It is thus advisable to include a corresponding section in the main licence agreement.

The majority of Swiss scholars agree that non-exclusive licences generally cannot be sub-licensed without the licensor's prior consent.

The licensee can waive its right to sub-license.

14 If intellectual property in your jurisdiction is jointly owned, is each co-owner free to deal with that intellectual property as it wishes without the consent of the other co-owners? Are co-owners of intellectual property rights able to change this position in a contract?

Under Swiss property law, co-ownership may either be what is called united ownership or ownership in common.

Each owner in common has the right to the whole thing. This means that the joint owners do not possess an undivided share in the IPR. Conversely, united owners possess an undivided share in the right.

The traditional view is that the principles of property law also apply to IPR. Subject to any agreement to the contrary, parties that engage in joint work such as joint R&D projects are traditionally held to be joined in a simple partnership and as a result are held to be owners in common. For copyrights, this view has been confirmed by the Federal Supreme Court. For patents and trademarks, no judgment has been issued yet. However, the Swiss Patent Office issued a statement in early 2000 according to which there is a general presumption that – subject to an agreement to the contrary – co-owners of a patent are held to be

owners in common. A dissenting view has emerged in literature more recently, according to which the general principles of property law shall not be applicable to patent law in view of a special provision in the Patent Act. This modern view advocates that where a patent is granted to two people, subject to an agreement to the contrary, the co-owners are held to be united owners of the patent (ie, each person or entity owns an equal undivided share in the patent).

Regardless of which notion of co-ownership is applied, the grant of licences always requires the consent of all co-owners under Swiss law. Contrariwise, the assignment of a co-owner's interest in the IPR is only possible under united ownership, whereas owner's in common always need the other co-owner's consent.

In any event, the parties are free to agree on the type of co-ownership they prefer and they can provide detailed rules on the exploitation of the corresponding IPR. The above-outlined default legal regime applies only if the relevant agreement does not provide specific rules or is unclear in this respect.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Switzerland is a 'first to file' jurisdiction. Both Swiss and foreign licensors are allowed to license an invention subject to a patent application but in respect of which the patent has not been issued.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Software, business processes or methods are, in principle, not patentable.

Although software itself cannot be the subject matter of a patent, patents can be granted for computer-implemented inventions. In addition, software code is protected as a work under copyright law.

Pursuant to the Patent Act, the human body and its elements, naturally occurring gene sequences and 'inventions whose exploitation is contrary to human dignity or that disregard the integrity of living organisms or that are in any other way contrary to public policy or morality' are not patentable. The Patent Act also explicitly excludes patents on plant varieties and animal varieties; it also excludes essentially biological processes for the production of plants or animals.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Trade secrets and know-how are protected by general contract law, the Federal Act against Unfair Competition (UCA) and the Swiss Criminal Code.

There is no statutory definition of trade secrets under Swiss law. Pursuant to court precedents and scholarly writing, trade secrets are defined as information that is not publicly available and actually kept secret by its owner. In addition, the owner has to have an interest in keeping the information from becoming publicly known.

Trade secrets are not considered as exclusive rights by Swiss courts. The remedies under the UCA include injunctions against the use of information obtained in breach of a confidentiality undertaking and damages for breach of confidentiality.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

The parties to a licence agreement can agree on restricting the use and the disclosure of the licensor's trade secrets both during and after the termination of the agreement.

There are no statutory rules on the ownership of improvements of know-how made by the licensee. In the absence of explicit contractual provisions, the agreement must be interpreted (see question 3), whereby such an interpretation should not lead to a result that is inconsistent with competition law (see question 31).

19 What constitutes copyright in your jurisdiction and how can it be protected?

Pursuant to the Federal Act on Copyright (CA), copyrighted works are literary and artistic intellectual creations with an individual character, irrespective of their value or purpose (article 2(1) of the CA). This includes, in particular:

- literary, scientific and other linguistic works;
- musical works and other acoustic works;
- works of art, in particular paintings, sculptures and graphic works;
- works with scientific or technical content such as drawings, plans, maps or three-dimensional representations;
- works of architecture;
- works of applied art;
- photographic, cinematographic and other visual or audiovisual works; and
- choreographic works and works of mime (article 2(2) of the CA).

Computer programs are also protected under copyright law (article 2(3) of the CA).

The CA also protects derivative works in their own right. Derivative works are works that are based upon pre-existing works, whereby the individual character of the latter remains identifiable, in particular, translations and audiovisual or other adaptations of pre-existing works (article 3 of the CA). The protection of the pre-existing work is reserved, that is to say the use of the derivative work is subject to the consent of the owner of the copyright into the pre-existing work.

Works are protected by copyright law as from their creation. In other words, it is neither necessary nor possible to register copyrighted works with a state authority.

Software licensing

20 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Swiss contract law does not recognise perpetual agreements in principle. That is to say, all long-term agreements can be terminated unilaterally without cause after a certain minimal duration, even if this is not foreseen or explicitly excluded by the agreement. The allowed minimal duration depends on the intensity of the mutual obligations of the parties in the individual case.

Swiss authors and one trial court decision consider, however, that perpetual software licences can be treated like the sale of one copy of the software, in particular if the licensor has relinquished control over the relevant copy, the licensee has paid an initial one-time licence fee with no further recurring payments and the amount of the fee corresponds to the economic value of the relevant copy. Thus, the licensee of a 'perpetual licence' can be considered as having obtained legal title to the underlying copy.

21 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There are no general administrative restrictions to the granting of licences for software. However, pursuant to the Federal Act on the Control of Dual-Use Goods and of Specific Military Goods, software that was designed or modified for military purposes, as well as software that may be used both for civilian and military purposes, is deemed to be 'goods' within the sense of the statute and can be subject to import and export restrictions.

22 Are there any legal restrictions in your jurisdiction with respect to the restrictions a licensor can put on users of its software in a licence agreement?

The predominant principle in licensing is freedom of contract. In principle, the parties can foresee all kinds of legal restrictions and they are only limited by mandatory provisions of law, such as competition law and the exhaustion principle that limits the possibility to impose enforceable resale restrictions on third parties.

The Copyright Act contains a list of exceptions to copyright, which enable certain specific uses of computer programs without the copyright holder's consent (in particular the right to decode software to

ensure interoperability with other computer programs and the right to create backup copies). Although there are no Supreme Court decisions on this topic, lower courts and the majority of Swiss scholars consider that these exceptions cannot be contracted around (ie, a contractual limitation or exclusion of a party's right to decode software for interoperability purposes, or to create backup copies would be unenforceable).

As a general rule of Swiss contract law, contractual provisions that one party (the licensee) cannot expect in good faith to be part of the agreement must be explicitly referred to and cannot be included into the agreement by way of pre-formulated general terms and conditions (unusualness principle).

Finally, in agreements with consumers, the use of pre-formulated general conditions that foresee a significant and unjustified disproportion between the rights and obligations arising from the contract to the detriment of the consumer in violation of the rules of good faith are considered to constitute unfair competition.

Royalties and other payments, currency conversion and taxes

23 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

There is no legislation governing the nature, amount, manner or frequency of royalty payments or other fees or costs. The parties are, in principle, free with respect to their financial arrangements. Likewise, neither royalty rates nor other fees or costs require regulatory approval in Switzerland.

However, under specific circumstances certain restrictions on the parties' commercial freedom may follow from the applicable competition laws. This applies in the field of standard essential patents, or where licensing arrangements are capable of unduly influencing the market prices of the products at stake (eg, if in cross-licensing agreements between competitors very high royalties are agreed with the purpose of raising the market price).

The Swiss Code of Obligations provides for dispositive rules on interest payable on late payments, which are applicable to international licensing agreements if the parties have not stipulated otherwise. Pursuant to these rules, the interest rate for late payments in commercial arrangements corresponds to the applicable bank discount rate but is at least 5 per cent.

24 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

There are no restrictions on transfer and remittance of currency in Switzerland.

Switzerland's Anti-Money Laundering Law newly imposes certain identification and documentation requirements when cash payments in a total amount of more than 100,000 Swiss francs are made. Such requirements do not apply when money is transferred via a financial intermediary.

25 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

Only licensors incorporated or with a permanent establishment in Switzerland (in the case of companies) or who have their place of residence in Switzerland (in the case of natural persons) may be subject to income taxation in Switzerland. If these tax residency conditions are not met, or if licence payments are not made to the Swiss branch but to a foreign entity of the licensor, licensing income to such foreign licensor is not taxed in Switzerland, even if such licensing income is generated in or from Switzerland. As a consequence, no double taxation issues arise in such circumstances.

In Switzerland, there are no withholding taxes on royalties or other licensing payments made by licensees. This applies regardless of whether the licensor is based in Switzerland or abroad.

Competition law issues

26 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

According to article 3(2) of the Federal Cartel Act, the Act shall 'not apply to effects on competition resulting exclusively from the legislation concerning intellectual property', except that 'import restrictions based on the legislation regarding intellectual property' shall be subject to the Cartel Act. While the exact effects of this provision are unclear, the Swiss Competition Commission, backed up by the modern legal doctrine – advocates that such a provision shall be interpreted restrictively. Licensing agreements are generally deemed to be subject to the general competition law rules.

The Cartel Act regulates binding and non-binding arrangements (including gentleman's agreements) and concerted practices that have as their object or effect the restriction of competition in Switzerland. Such arrangements are only prohibited if they eliminate competition or appreciably restrict competition without being justified on grounds of economic efficiency. If the market share of any party to the agreement does not exceed 15 per cent, vertical agreements are assumed not to have an appreciable effect on the market (de minimis clause), unless they include any of the following:

- price fixing;
- restrictions on where or to whom a buyer can sell;
- restrictions on sales to the final consumer within a selective distribution system or cross-sales among members of the same selective distribution system; and
- restrictions preventing suppliers from selling components or spare parts to customers other than the distributors designated in the agreement.

There are no specific rules on licensing arrangements in Swiss competition law. Generally speaking, the guidelines of the European Commission on Technology Transfer Agreements, while not directly applicable or binding in Switzerland, have a certain weight in the assessment of potentially restricting licensing practices and the boundaries set therein should therefore also be respected in agreements that have an impact on the Swiss market.

Furthermore, the abuse of a dominant position is prohibited. Exclusive cross-licence agreements between competing entities may result in a combined dominance, which, in the case of abuse, could be considered a breach of competition law.

Beneath the Federal Cartel Act, the Swiss Federal Act against Unfair Competition can also be relevant with respect to anticompetitive practices, although it applies a fair dealing standard rather than a market restriction approach. For instance, predatory pricing and refusal to deal or supply may be abusive under the Cartel Act (as abuse of a dominant position) or constitute a violation of unfair competition law under specific circumstances, or both.

27 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

The duration of licence agreements is not restricted in a general manner and there is no strict prohibition on continuing a licence arrangement after expiration of the licensed rights. Licences for remuneration can be justified under competition law as long as either the relevant IPR exist, or valuable know-how is shared. Under certain circumstances, a licence agreement can even continue for a certain time after expiration of the relevant rights; for instance, if the exclusive licensee continues to benefit from a head start thanks to the fact that he or she was granted a licence before competitors could step in. However, there are limitations to the possibility to stipulate perpetual obligations under Swiss law (article 27 of the CC) (see question 22).

Exclusive licences are generally permissible, except for exclusivity in customer allocation, which is a hardcore restriction. Exclusive cross-licensing arrangements between direct competitors may result in a collective dominant position with increased abuse potential.

Internet sales platforms are principally qualified as passive sales measures, unless the website specifically targets customers in an individual territory (active sale). Passive sales restrictions are considered hardcore restrictions of competition. Likewise, constraints having a

similar effect, such as technical blocking measures, rerouting or currency restrictions are also unlawful.

There are no directly applicable rules on non-competition restrictions. Generally speaking, non-compete obligations are accepted in licence agreements. However, in line with the practice on general vertical restraints, the duration of such non-compete obligations should usually not exceed five years or one year after the termination of the agreement.

Likewise, there are no specific rules of Swiss competition law and no relevant practice on grant-back provisions. Such grant-back provisions will be scrutinised on a case-by-case basis if the relevant market thresholds are met, whereby exclusive grant-back provisions have a higher potential of restricting competition than non-exclusive obligations and should, therefore, not be included in licence agreements to avoid competition law issues.

28 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

There is no case law of Swiss authorities in this respect. See questions 30 and 31 for some guidance on the assessment of the anticompetitiveness of such uses.

Indemnification, disclaimers of liability, damages and limitation of damages

29 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

It is very common to include indemnification provisions in licensing agreements governed by Swiss law. Such indemnification provisions are generally enforceable.

Insurance coverage for the protection of a foreign licensor may be available in support of an indemnification provision.

30 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

It is common practice to exclude or limit liability for certain categories of damages; in particular, consequential and indirect damages, respectively, or to limit the total amount of damages due under the licence agreement. Such liability disclaimers and limitations are generally enforceable with an important exception: any agreement purporting to exclude liability in advance for damages caused with unlawful intent or by gross negligence is void because of mandatory Swiss contract law.

In addition, disclaimers and limitations of liability for damages following from personal injury or death are considered not to be enforceable.

Termination

31 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

The parties are free to terminate the licence in accordance with the contractual terms.

In this context it is, however, important to note that while Swiss law does not impose conditions or limit the right to terminate or not to renew a licensing relationship, it provides for a mandatory possibility to terminate any long-term contract prematurely for important reasons. Such important reasons require grounds that would render the continuation of the contract unacceptable and unreasonable. In general, the threshold for an important reason is high.

Generally speaking, under Swiss law, no indemnity or other form of compensation is due upon termination or non-renewal of a licence agreement. However, in very specific cases, agency law, which provides for a mandatory compensation under certain circumstances (article

418u of the Swiss Code of Obligations) may be applicable by analogy if the factual and economic circumstances of the licensing setup are comparable to an agency setup; namely, if the licensee is integrated in the distribution organisation of the licensor and invests in the extension of the customer base without being able to retain such customers upon termination of the agreement. The Federal Supreme Court recently ruled that these conditions were fulfilled in a case involving an exclusive distribution agreement (in an older judgment it had generally denied the applicability of the agency rules on exclusive distribution agreements). It has not yet been decided whether article 418u of the Swiss Code of Obligations may also be applicable to franchise agreements, but in view of the Supreme Court's recent judgment it appears likely that the compensation requirement may also be extended to franchising setups on a case-by-case basis.

32 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

As a result of the termination or expiration of a licence agreement, the performance of any sub-licence granted by the licensee becomes impossible. As a result, the sub-licensee can claim damages for non-performance from the sub-licensor (ie, licensee). If the sub-licence agreement is conditional upon the main licence agreement, it automatically ends upon termination or expiration of such a main licence.

A contractual provision in the sub-licence agreement alone would be insufficient to address this issue and would have no effect on the main licensor.

The parties can, however, validly agree in the main licence agreement that the licensor acknowledges the validity of any sub-licences validly granted by the licensee even after expiration or termination of the main licence agreement. In such a case, the sub-licensee can rely upon this provision of the main licence agreement as a defence against the licensor. Such provisions should be drafted with caution and indicate whether the sub-licences remain valid in all cases (eg, including termination for material breach by the licensee) or whether they remain valid only upon termination at will or expiration by one of the parties.

The parties can also agree in the main licence agreement that all sub-licence agreements in force at the time of the termination or expiration of the main licence agreement are assigned to the licensor. In the latter case, the sub-licensee's consent (which can be given in the sub-licence agreement) is necessary for such assignment to be valid.

Bankruptcy

33 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that the licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

A licence agreement does not automatically end with the licensee's bankruptcy. However, the insolvency administrator of the licensee can decide whether or not it wants to continue to perform the licence agreement. If he or she chooses not to perform the licence agreement, the agreement is terminated (article 211 of the Federal Act on Debt Enforcement and Bankruptcy (DEBA)) and the licensor's interest under the agreement will be transformed into a monetary claim (article 211 of the DEBA). If the administrator does not choose to continue the performance, the licensor's claim against the estate is limited to what the licensor would be entitled to until the next possible date of termination or until the end of the fixed term of the contract (article 211a of the DEBA).

The bankruptcy of the licensee may often be an important reason for the licensor to terminate the licence agreement, even if such a termination possibility has not been explicitly stipulated in the agreement (see question 35). In any event, the parties are free to provide for a contractual termination right by the solvent party in the event bankruptcy proceedings are opened upon the other party.

If the licence agreement is terminated upon bankruptcy of the licensee, be it by the licensor or because the licensee's insolvency administrator chooses not to continue to perform the agreement, any sub-licence agreements will also come to an end (see question 35).

34 What is the impact of the bankruptcy of the licensor on the legal relationship with its licensee; and any sub-licence the licensee has granted? Are there any steps a licensee can take to protect its interest if the licensor becomes bankrupt?

Similarly to what has been set out above at question 37, the licence agreement does not automatically terminate upon the licensor's bankruptcy. The insolvency administrator can declare that it wants to continue or terminate the agreement. If the performance of the agreement is not continued, the licensee's interest under the agreement will be transformed into a monetary claim. The amount of the claim is limited to what the licensee would be entitled to until the next possible date of termination or until the end of the fixed term of the contract.

The licence in registered rights can be registered with the appropriate public registers (Patent Register, Trademark Register and Design Register). If the licence is registered, it can be enforced against whoever acquires the right from the licensor's bankruptcy estate. This possibility does not exist for the licence of unregistered rights (eg, copyright). For unregistered copyrights, in particular software licences, it is advisable to inform the bankruptcy administrator proactively of the existence of the licence and request that the relevant copyrights shall not be sold without the encumbrance of the licence. In addition, such scenarios should be already envisaged when drafting the licence agreements, where the right to use the source and object code for modifications and updates after bankruptcy of the licensor should be secured; a software escrow is often advisable to ensure that the source and object codes are available after bankruptcy of the licensor.

In addition, the licensee can request an additional security interest into the IPR, such as a pledge or agree that – in addition to or instead of the licence – the licensee shall be granted a usufruct into the IPR. A usufruct, in contrast to a licence, provides an erga omnes position, which can be opposed to third parties, including in the bankruptcy of the licensor.

Governing law and dispute resolution

35 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

Under Swiss law, the parties to an international licensing arrangement are free to choose the governing law. The Federal Statute on International Private Law imposes very few limitations to the parties' freedom of choice:

- the mandatory provisions of Swiss law that, by reason of their special aim, are applicable regardless of the law agreed upon by the parties, remain applicable regardless of the parties' choice of law; this applies in particular with respect to Swiss competition law, which is applicable if the licence agreement has effects in Switzerland; and
- the application of provisions of foreign law is excluded if such application leads to a result that is incompatible with Swiss public policy, which will seldom be the case in a licensing context).

36 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another?

The parties can contractually agree to arbitration in any jurisdiction and under any arbitration rules. International licensing disputes under Swiss law are mostly adjudicated under the International Chamber of Commerce Rules of Arbitration or the Swiss Rules of International Arbitration, but there is no limitation as to the applicable rules set and adjudicating body, respectively. Zurich and Geneva are popular choices as the seat for the arbitration.

International arbitration awards rendered in Switzerland can be challenged before the Federal Supreme Court as sole instance if the parties have not validly opted out of the setting-aside procedure. Statistics show a very arbitration-friendly stance and efficient decision-making by the Federal Supreme Court.

To date, the question whether class action arbitration is allowed under Swiss law remains untested in Swiss courts. Equally, the question of whether a contractual waiver of class action arbitration would be enforceable is unknown. In any event, nothing in Swiss statutory law explicitly precludes class action arbitration, but such proceedings might be invalidated for due process concerns and for a lack of equal treatment of the parties. In addition, the award may not be enforceable against or on behalf of all class members.

37 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A distinction must be drawn with respect to foreign judgments and arbitral awards rendered in other jurisdictions.

Court judgments

Switzerland is a party to a number of bilateral and multilateral treaties governing the recognition and enforcement of foreign judgments.

Judgments rendered by courts of EU member states as well as of Norway and Iceland are recognised and enforced under the rules of the Lugano Convention of 30 October 2007. Under the Convention, decisions that are enforceable in their country of origin are also recognised and enforceable in Switzerland. With very few exceptions, a Swiss court will recognise such decision incidentally without reviewing the competence of the deciding court or the merits of the foreign decision.

The Lugano Convention does not limit the remedies that can be enforced. Therefore, any remedy ordered by a court of a Convention member state can be enforced in Switzerland (except where a remedy would be in manifest contradiction to Swiss public order). Notably, not only final judgments but also preliminary injunctions (except for ex parte injunctions) are, in principle, enforceable under the Lugano Convention, although their enforcement may raise complex issues in practice.

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Switzerland is also a party to a number of bilateral treaties on recognition and enforcement in civil and commercial matters. Where there are no applicable treaties, the recognition and enforcement of foreign judgments is governed by the Swiss Private International Law Act (PILA). According to the PILA, a foreign court decision is recognised if it has been rendered by a competent foreign authority, it is final, and it complies with fundamental material and procedural legal standards, as defined by the PILA. If these conditions are met, a Swiss court will recognise the decision incidentally without further reviewing the merits of the decision. The prevailing view is that, under the PILA, a judgment must be final to be enforceable, which excludes the enforceability of foreign preliminary injunctions in Switzerland (except where rendered by a member state of the Lugano Convention).

Arbitral awards

Switzerland is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (New York Convention). The recognition and enforcement of arbitral awards in Switzerland is governed by the rules of the New York Convention; this applies regardless of the place where an arbitral award was rendered.

It is noteworthy that disputes regarding the validity of licensed intellectual property are also arbitrable in Switzerland. Hence, an arbitral award declaring a registered IPR invalid will be recognised and enforced by the Swiss Institute for Intellectual Property in the same manner as a judgment or order to the same effect.

38 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Switzerland. Other than in some other jurisdictions, public policy considerations are not taken into account when determining whether an injunction may be granted. Rather, if the breach of the licence agreement can be remedied by an injunction and the claimant actually requests an injunction, the court has no judicial discretion to deny the grant of such an injunction. There are no exemptions for particular subject matter (such as pharmaceuticals) or particular claimants (such as non-practising entities).

However, the parties to a licence agreement are free to contractually waive the right to request injunctions to remedy a breach of the licence agreement. In this case, the waiver should be explicit and limited in time (eg, for the duration of the agreement).

Likewise, it is common practice to exclude liability for certain categories of damages, in particular consequential and indirect damages, respectively, or to limit the total amount of damages due under the licence agreement. However, an important limitation applies with respect to damages caused with unlawful intent or by gross negligence where any agreement purporting to exclude liability in advance is void because of mandatory Swiss law (see questions 29 and 30).

Getting the Deal Through

Acquisition Finance
Advertising & Marketing
Agribusiness
Air Transport
Anti-Corruption Regulation
Anti-Money Laundering
Appeals
Arbitration
Art Law
Asset Recovery
Automotive
Aviation Finance & Leasing
Aviation Liability
Banking Regulation
Cartel Regulation
Class Actions
Cloud Computing
Commercial Contracts
Competition Compliance
Complex Commercial Litigation
Construction
Copyright
Corporate Governance
Corporate Immigration
Corporate Reorganisations
Cybersecurity
Data Protection & Privacy
Debt Capital Markets
Defence & Security Procurement
Dispute Resolution
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Dominance
e-Commerce
Electricity Regulation
Energy Disputes
Enforcement of Foreign Judgments
Environment & Climate Regulation
Equity Derivatives
Executive Compensation & Employee Benefits
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Licensing
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Mediation
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Private Equity
Private M&A
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Public M&A
Public-Private Partnerships
Public Procurement
Rail Transport
Real Estate
Real Estate M&A
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Restructuring & Insolvency
Right of Publicity
Risk & Compliance Management
Securities Finance
Securities Litigation
Shareholder Activism & Engagement
Ship Finance
Shipbuilding
Shipping
Sovereign Immunity
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