

## Terminating Licences of IP Rights (Taiwan)

by Ling-ying Hsu and Yi-kai Chen at Winkler Partners

Status: Law stated as at 01-Apr-2024 | Jurisdiction: Taiwan

This document is published by Practical Law and can be found at: [uk.practicallaw.tr.com/w-041-6744](https://uk.practicallaw.tr.com/w-041-6744)  
Request a free trial and demonstration at: [uk.practicallaw.tr.com/about/freetrial](https://uk.practicallaw.tr.com/about/freetrial)

A Practice Note discussing the key legal issues that may arise under Taiwan laws 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 Taiwan.

Termination is part of the life cycle of every intellectual property (IP) licence. Most businesses license IP rights, whether as licensor, licensee, or both. While there are different categories of IP rights, common issues can arise when terminating any IP licence. Terminating a licence incorrectly can expose a party to a claim for breach of contract, so understanding how to navigate these issues can be crucial.

The governing law of the licence is significant as the rules and procedures for terminating IP licences vary between global jurisdictions. There are unique components of the laws governing IP in Taiwan. For instance, clauses within a standard form contract, crafted by one party with the other party having limited negotiation abilities, may be deemed invalid if they meet certain criteria. Therefore, unfair clauses regulating exercise of termination rights may be deemed invalid in Taiwan if they are provided in a standard form contract. In terms of litigation proceedings, Taiwan has a specific court, known as the [Taiwan Intellectual Property and Commercial Court](#) (the IPC Court), which has a broad jurisdiction to deal with cases that relate to IP, including disputes arising from the termination of IP rights licences. The judges in the IPC Court have expertise in IP laws and are expected to be familiar with IP legal issues.

This Note considers common licence termination scenarios, including expiry, types of termination, and the effects of different types of breach. 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: Overview \(International\)](#).

For a collection of Global resources on licensing IP rights, see [Intellectual Property Licensing Toolkit \(International\)](#).

### Expiry

A licence agreement terminates automatically on its expiration. The parties to the agreement do not need to take any additional steps to cease the licence granted under the agreement, as the licence terminates automatically on the expiration of the agreement.

On the expiration of a licence, the licensee must cease using the IP rights, unless the parties agree otherwise. An exception to this general rule is if the licensor consents to a sell-off period, during which the licensor permits the licensee to continue selling any existing stock of products that incorporate the specified IP rights. Usually, the sell-off period is no longer than six months.

Despite the licence expiring, the parties still have certain obligations, including in relation to confidentiality and the obligation to return or destroy documents and information. These obligations survive the expiration of the licence (see [Obligations that Survive Termination](#)).

### Circumstances Where a Party Can Terminate a Licence

Taiwan laws do not include specific provisions or regulations governing the terms and conditions of an IP licence relationship. Consequently, the rights and obligations of the parties to the IP licence usually depend primarily on the agreed terms set out in the licence.

As provided by the principle of freedom of contract, parties can freely negotiate and stipulate their rights and obligations in licences. Parties can decide which circumstances would grant either party or both parties a right to terminate the agreement. The freedom of contract principle is subject only to the explicit limitations in the [Taiwan Civil Code](#) (Civil Code) that prohibit certain types of clauses, such as one that violates an imperative or prohibitive law (Article 71, Civil Code).

If the licence is silent on termination of the agreement, the general contractual provisions in the Civil Code govern the rights and obligations of the parties concerning termination. For example, a party may claim its right to terminate the licence where the other party breaches the agreement and does not rectify its breach within the specified period under the Civil Code. However, the provisions of the Civil Code come into play only in the absence of clear stipulations in the agreement.

However, a party cannot necessarily invoke the remedies outlined in the Civil Code directly. The court would allow these remedies to be adopted through an analogous application of those outlined in the Civil Code. Previous judicial decisions regarding the termination of licences have referential value only. The breach of contract provisions under the Civil Code originally applied to non-continuing contracts, such as purchase agreements for one-off deals, rather than continuing contracts like licences, which persist until termination. However, Taiwan court judgments have held that, even in the absence of specific provisions under the Civil Code for the termination of continuing contracts, the relevant provisions on rescission of non-continuing contracts apply to continuing contracts (including IP licences) by analogy (Supreme Court Civil Judgments No. 100-Tai-Shang-675 and No. 89-Tai-Shang-1940).

#### Unilateral Termination Without Cause

Taiwan laws do not contain provisions allowing parties to terminate a licence unilaterally without cause. However, parties are free to include a unilateral termination clause in a licence agreement.

Where a licence does not contain relevant terms, previous judicial decisions have shown different

perspectives on whether a party can terminate unilaterally.

- Judgments have held that, for a licence agreement with an indefinite term, the parties involved have the right to terminate the agreement at any time without cause. Otherwise, the licence would bind the parties forever (IPC Court Civil Judgment No. 104-Min-Shang-Su-6, and IPC Court Civil Judgment No. 105-Min-Shang-Shang-3).
- One of these court judgments further stated that the licensor (but not the licensee) should have the right to terminate an indefinite licence unilaterally without cause, especially if they granted the licence for free (IPC Court Civil Judgment No. 104-Min-Shang-Su-6).
- Another court judgment held that a party should not be able to terminate unilaterally an indefinite IP licence at will where the parties have agreed express grounds for termination (IPC Court Civil Judgment No.104-Min-Shang-Shang-3).
- An earlier judgment held that where an IP licence is **non-exclusive**, there should be restrictions on the licensor's rights to terminate without cause, as the continuation of the licence does not affect the licensor's ability to use their own IP. The licensor can still use their IP or grant additional non-exclusive licences to third parties (Supreme Court Civil Judgment No. 104-Tai-Shang-2238).

In assessing a unilateral termination clause, Taiwan courts may consider the following factors:

- Whether the licence agreement provides for specific grounds for termination.
- Whether the licensee has paid any royalties to the licensor.
- Whether the licensor can continue to use their own IP or license it to others despite the continuation of the licence.

Since Taiwan courts have not held a consistent position, it is good practice to specify whether either party or both parties can unilaterally terminate the licence without cause. A proactive approach could help mitigate potential disputes in this regard.

#### Termination Due to Performance Becoming Impossible

According to the legal framework in Taiwan for interpreting contracts, parties can terminate an agreement if the continued performance of the main obligations under the agreement becomes impossible. One example would be if the copyright no longer subsists that is the subject matter of a licence.

However, whether a party can terminate for impossibility depends on which party is responsible for the

## Terminating Licences of IP Rights (Taiwan)

impossibility. The impossibility of performance must be attributable to one of the parties. If the impossibility of performance is not attributable to one party (for example, a force majeure event intervenes), then neither party can terminate, so it is advisable for the licence agreement to specify expressly whether either party can terminate in this scenario.

Whether a party to a licence agreement can claim compensation for damages from the other party after termination based on impossibility of performance also depends on which party is responsible for the impossibility of performance, as outlined in the table below:

**Table: Impossibility of Performance**

Party responsible for the impossibility of performance	Whether a party to the IP licence agreement can claim compensation from the other party on termination
None of the parties (for example, force majeure).	Neither party has an obligation to pay compensation to the other party (Articles 225 and 266, Civil Code).
One of the parties (the party who renders their own performance impossible).	The responsible party must provide compensation to the other party (Article 226, Civil Code).
Both parties (one party cannot perform, but the other party contributed to the circumstances making performance impossible).	The party that cannot perform must provide compensation to the other party. However, the court reduces the compensation, or even waives it, based on the percentage of liability that the other party contributes to the impossibility of performance (Articles 217, 226, and 267, Civil Code).

### Termination on Reasonable Notice

Taiwan laws do not contain specific provisions governing the termination of licences by giving reasonable notice. Therefore, parties have flexibility to agree terms on this, including the length of the notice period.

However, parties often enter into a licence of IP rights as part of a cooperative relationship, such as a licence

of trademarks under a franchise or an agency. If the parties' cooperative relationship belongs to a specific type of contract (a nominated contract) under the Civil Code, the Civil Code allows the parties of certain types of contracts to terminate the agreement at will with a prior notice. This includes any licence granted under the agreement, in accordance with the Civil Code. For example, if the parties' cooperative agreement is a commercial agent agreement as defined by the Civil Code, either party can terminate that agreement by giving three-months' prior notice, provided the agreement does not specify an expiration date (Article 561, Civil Code).

### Termination by Agreement

Parties can terminate a licence by agreement, and there are no required formalities to comply with for the agreement to take effect.

However, to prove that both parties have reached an agreement to terminate the licence, it is advisable for parties to specify explicitly in signed writing their mutual consent to the termination.

### Termination for Breach

According to the general contract laws in Taiwan, a party can terminate a licence agreement for breach of contract. However, the appropriate course of action for termination depends on the type of breach and the specific clause or condition in the licence that the other party has breached.

Generally, if a party breaches a term that leads to impossibility of performance under the licence, the non-breaching party:

- Has the right to terminate the agreement immediately (Article 226, Civil Code).
- Can claim compensation (see Termination Due to Performance Becoming Impossible).

If a party breaches a term and the breach is remediable, such as paying royalties late, the non-breaching party can terminate the licence agreement, provided they have carried out certain procedures:

- The non-breaching party must first issue a notice to the breaching party, requesting rectification of the breach within a reasonable timeframe.
- If the breaching party fails to rectify the breach within that timeframe, the non-breaching party can terminate the licence.

(Article 254, Civil Code.)

Following termination for remediable breach in the above circumstances, the terminating party can claim compensation for damages from the non-terminating party (Article 260, Civil Code). However, the court can reduce the compensation, or even waive it, if the terminating party has also contributed to the breach of contract (Article 217, Civil Code).

Additionally, if, based on the nature of the licence or the expressed intentions of the parties, it is not possible to achieve the agreement's purpose without one party performing a specific obligation within a fixed period, and that party fails to do so, the other party can terminate the agreement immediately, without issuing a prior notice requesting remedy (Article 255, Civil Code).

### Termination Under the Terms of the Licence

In accordance with the principle of freedom of contract, parties can stipulate any termination provisions in the licence, including an automatic termination clause. This is only subject to the limitations explicitly outlined in the Civil Code that prohibit certain types of clauses, such as a clause that violates an imperative or prohibitive law (see Circumstances Where a Party Can Terminate a Licence).

The courts may construe the inclusion of a specific list of triggers for termination as an exclusion of other unlisted triggers, unless the unlisted triggers are otherwise allowed under the Civil Code, such as termination rights for breach of contract. Consequently, it is advisable for parties to a licence to list potential triggers for termination in the agreement as completely as possible. This is especially important in the case of a sub-licence, where the sub-licensor should include a clause in the sub-licence stating that it terminates immediately if the head licence terminates. Otherwise, the sub-licensor would immediately be in breach of its obligations under the sub-licence (see Effect of Termination on Sub-Licences).

### Termination for Convenience on Written Notice

It is customary for parties in Taiwan to include a provision in a licence agreement allowing termination by giving notice (namely, termination for convenience). However, the inclusion of this kind of termination clause depends on the scenario. For example, a licensor may want to retain a right to terminate for convenience in an exclusive licence but may not need this right in a non-exclusive licence.

The parties are free to specify:

- The required notice period.
- Any formalities required for the termination notice (see Giving Notice of Termination).

### Termination Following Change of Control of the Licensee

Parties typically include provisions in a licence agreement allowing termination after a change of control of the licensee. This is key if the licensor's competitor acquires control over the licensee.

If the licensor wants an option to renegotiate the licence terms in these circumstances, in addition to the termination right, they should include a provision for renegotiation during the change of control, before exercising the termination right. While there are no required formalities to render renegotiated terms binding, to reduce the risk of disputes, it is recommended that the parties explicitly detail all the new aspects in signed writing, as an amendment to the existing licence or in a new licence agreement.

### Termination Due to Invalidity or Expiry of IP Rights

The invalidity or expiration of the licensed IP rights does not automatically result in the termination of a licence agreement unless the parties have included an express termination trigger. However, Taiwan laws separately provide parties with the right to terminate a licence agreement when the licensed IP rights become invalid or expire, as it becomes impossible to carry out obligations in the licence (see Termination Due to Performance Becoming Impossible). The licensee is not obligated to pay royalties to the licensor after termination, except for those already incurred beforehand.

### Termination if Licensee Challenges Validity of the Licensed IP Rights

Under the principle of freedom of contract, parties can include a no-challenge clause in a licence agreement, barring the licensee from starting legal proceedings to contest the validity of the licensed IP rights. The parties can also include a termination clause in the licence granting the licensor the right to terminate the agreement if the licensee breaches the no-challenge obligation. These clauses are commonly included in agreements in Taiwan. Without these clauses, the licensor cannot terminate the licence if the licensee challenges the validity of the licensed IP rights.

### Termination Due to Insolvency or Bankruptcy of the Licensee

Taiwan laws do not provide a licensor a right to terminate a licence following the licensee's insolvency or bankruptcy. Consequently, it is advisable for parties to include an express termination clause in the licence agreement.

Termination due to the licensee's insolvency or bankruptcy does not occur automatically unless the termination clause expressly states so. An automatic termination clause in the licence is especially important to address the licensee's insolvency, bankruptcy, or subsequent acquisition by a competitor of the licensor.

### Termination Due to the Insolvency or Bankruptcy of the Licensor

Taiwan laws do not provide a licensee a right to terminate a licence following the licensor's insolvency or bankruptcy. Consequently, it is advisable for parties to include an express termination clause in the licence agreement.

Termination due to the licensor's insolvency or bankruptcy does not occur automatically unless the termination clause expressly states so. If the licensor becomes insolvent, their IP rights become part of the licensor's bankruptcy estate, and the trustee in bankruptcy can sell and transfer the licensed IP rights to a third party (Articles 82 and 138, [Bankruptcy Act](#)). Given this transfer of the licensed IP rights, if the licensee would prefer to continue to use the licensed IP rights, they can include provisions in the licence agreement stating that the licensor's insolvency or bankruptcy should not impact the granted licence. To achieve this outcome:

- The terms of the licence should prohibit the licensor from terminating the licence:
  - following their own insolvency or bankruptcy; or
  - for convenience (see Termination for Convenience on Written Notice).
- The licensor should have an express obligation to ensure the continuation of the licence even following the transfer of the licensed IP rights to a third party.

According to Taiwan laws, whether a buyer of IP rights from an insolvent or bankrupt licensor is bound by an existing licence depends on the category of IP rights:

**Table: Binding Effect of Licence on Buyer of Licensed IP Rights**

Type of IP Rights	Binding Effect on the Buyer (Assignee)
Copyright	Existing licence binds the buyer (assignee) of the underlying copyright. The licensor's subsequent transfer of the underlying copyright to the buyer (assignee) does not affect the licence. (Article 37, <a href="#">Copyright Act</a> ).
Trademarks	<p>An existing licence binds the buyer (assignee) of the underlying trademarks if the licensor and licensee recorded the licence with the <a href="#">Taiwan Intellectual Property Office (TIPO)</a> (Article 39, <a href="#">Trademark Act</a>).</p> <p>An unrecorded trademark licence does not bind the buyer (assignee) of a trademark unless they agree to be bound.</p>
Patents	<p>The <a href="#">Patent Act</a> does not contain specific provisions on this point.</p> <p>A previous court judgment indicates that, when a rightsholder transfers a patent to an assignee and later purports to transfer the same patent to a second assignee, the first transfer binds the second assignee (Supreme Court Judgment No. 96-Tai-Shang-1658). This applies even if the rightsholder did not record the first transfer with TIPO. Drawing from this judgment, it seems plausible that a licence may also bind a buyer (assignee) of the underlying patent, even if the licensor and licensee have not recorded the licence with TIPO.</p> <p>However, since there are no court decisions supporting this position, parties should monitor this issue closely.</p>

Given the variation in the outcome between different IP rights, it is advisable to:

- Incorporate explicit clauses addressing the binding effect on the buyer (assignee) in a licence agreement to mitigate potential disputes.
- Record patent or trademark licences with TIPO.

### Termination for Any Breach

Parties have the freedom to include a termination clause for “any breach” in a licence agreement. However, the Civil Code provides that a clause in a standard form contract that is gravely disadvantageous to a party who is unable to negotiate the terms and conditions is invalid (Article 247-1, Civil Code). A standard form contract:

- Is prepared by one party for general use.
- Contains terms and conditions that the other party cannot negotiate.

If the court considers the licence agreement to be standard form contract, then it may invalidate a termination clause for “any breach”, as termination is a disproportionate response to the damage caused by a trivial breach, making this clause gravely disadvantageous to the licensee.

The licensor can argue that the licence agreement is not a standard form contract:

- If the licence agreement provides an exclusive licence for a single counterparty rather than for general use.
- If the licensor and licensee did in fact negotiate the whole licence terms.
- If the licensor customised the licence terms for each licensee’s specific need.

### Termination for Material Breach

Parties commonly include a clause permitting immediate termination for a material breach in a licence agreement. Although parties typically do not provide an exhaustive list to define all material breaches, they typically specify certain types of breaches as being material. Common examples of material breaches include the licensee:

- Breaching confidentiality obligations.
- Seeking to invalidate the licensed IP rights.
- Applying to register an IP right that is identical or similar to the licensed IP rights.

When identifying whether a breach qualifies as a material breach parties and the courts may factor in:

- The nature and primary purpose of the licence agreement.

- The impact of the breach on the overall agreement.
- Whether the breaching party can remedy the breach and whether there is any negative effect on the non-breaching party even if the breaching party were to remedy the breach.

### Termination for Repeated Breaches

It is common for parties to incorporate a clause allowing termination for repeated breaches in a licence agreement. The consequences of repeated breaches can be similar to those of a material breach, giving the non-breaching party the immediate right to terminate.

For royalty payments, it is common for parties to include a clause granting the licensor a termination right if the licensee repeatedly makes late payments. However, outside of royalty payments, parties rarely define what constitutes repeated breaches, for example:

- How many breaches?
- Does a breach of one obligation and a breach of another obligation count as a repeated breach?
- How close in time do the breaches need to be?
- Do repeated trivial breaches count?

It is advisable that the parties specify the number of breaches, such as two or three, that would count as repeated breaches for certain key clauses of the licence agreement.

### Perpetual or Irrevocable Licences

Parties can specify licences as perpetual or irrevocable in a licence agreement. Taking these labels at face value, the licensor would be unable to withdraw from or terminate this licence, so the licensor should be cautious about granting these kinds of licences. The licensor may also consider making the licence conditional in these circumstances.

There are no specific legal definitions for perpetual or irrevocable. Therefore, it is advisable to specify in the licence agreement:

- Whether the licence lasts indefinitely.
- Whether neither party can terminate the licence under any circumstances.
- Any other limitations.

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

While partial termination of a hybrid IP licence is feasible, such as terminating a licence for patents while

continuing a licence for know-how, there are challenges with the performance of the remaining obligations:

- It can be difficult to distinguish between the licensee's use of the know-how as opposed to the patents.
- A party may want to renegotiate any ongoing royalty payments.
- The licensee may have already developed a product using both the know-how and the patents and may want to continue to manufacture and sell these products after a partial termination.

It is advisable to factor in how the parties could operate in practice under a part-terminated licence before deciding whether to allow the licensor to terminate in part.

### Remedying a Breach

The breaching party has a right and carries an obligation to remedy a curable breach. The non-breaching party must notify the breaching party to rectify the breach before invoking termination rights, unless the breach renders the performance of the agreement impossible or the purpose of the agreement unattainable (Articles 227, 254, 255, and 256, Civil Code). See Termination for Breach.

Although the Civil Code contains pertinent provisions, parties retain the autonomy to stipulate whether:

- The breaching party has the right to remedy specific types of breach before the non-breaching party terminates the agreement.
- The non-breaching party can promptly terminate the agreement following specific types of breach.

For example, it is common for parties to specify that either party may terminate the agreement immediately if the other party commits a material breach (see Termination for Material Breach). Where the parties agree to give the breaching party a right to remedy a breach, they typically set up a specific timeframe, usually ranging from 15 to 30 days, within which the breaching party must rectify it. The breaching party's failure to rectify it within the required timeframe entitles the non-breaching party to terminate.

Although parties have the autonomy to regulate terms regarding the rectification of breaches in their licence, the courts may deem unfair a clause providing for termination for any breach, without the opportunity to remedy, in a standard form contract. This clause would then be invalid under Article 247-1 of the Civil Code (see Termination for Any Breach).

### Giving Notice of Termination

There are no specific provisions governing formalities of notices of termination of an IP licence agreement. To be valid, either:

- For a written notice, the terminating party's intention to terminate must effectively reach the non-terminating party.
- For an oral notice, the non-terminating party must comprehend subjectively the terminating party's intention to terminate.

(Articles 94 and 95, Civil Code.)

Clear language is important, for example: "We terminate this licence" or "Y Corporation hereby terminates this licence."

For evidential purposes, it is good practice for the terminating party to issue a written notice of termination. In Taiwan, hard copies or electronic copies are both acceptable forms of written notice if the parties have expressly agreed to this (Article 4, [Electronic Signatures Act, 2001](#)). Additionally, to mitigate the risk of the non-terminating party refusing to acknowledge receipt of a termination notice or disputing its capacity to receive the notice, the parties can explicitly stipulate that any notice is deemed received by the recipient after a certain period (such as three days) following the date when the sender issues the notice to the recipient's designated address.

### Contents of Notice of Termination

While there are no legal requirements for the content of a termination notice, a notice of termination typically includes the following:

- The basis of termination (for instance, under a specific law or terms of the agreement).
- If the termination is based on a non-curable breach, a detailed statement describing how the party in breach has committed the breach.
- If the termination is based on a curable breach, a statement of how:
  - the terminating party provided the breaching party with an opportunity to remedy the curable breach; and
  - the breaching party failed to do so.
  - A specified date of termination.
- Reminders of post-termination obligations, such as confidentiality obligations and the obligation to cease using the licensed IP (see [Obligations that Survive Termination](#)).

### Saving Defective Notices

A defective notice of termination that is defective may be deemed an invalid termination, for example, if the notice does not reach the correct recipient. In practical terms, the terminating party often responds to this scenario by reissuing a termination notice promptly to ensure proper delivery of its intent to terminate.

### When Termination Takes Effect

The effective timing of termination depends on the type of termination, as outlined below:

Types of Termination	When Termination Takes Effect
Automatic termination due to agreed terms.	Termination takes effect when the agreed condition is met.
Termination by notice, where the terminating party designates an effective termination date.	Termination takes effect at the designated time specified in the termination notice.
Termination by notice, where the terminating party expresses its intention to terminate immediately.	Termination takes effect on the recipient receiving the termination notice, unless otherwise specified in the licence agreement (for example, termination takes effect when the notice is considered received by the recipient, which is defined as three days after the date the sender issued the notice to the recipient's designated address).

Once a termination notice is issued and received, the sender cannot withdraw it. If the sender wants to withdraw their termination notice, they must issue another notice to withdraw the termination, and that withdrawal notice must reach the recipient before or simultaneously with the original notice of termination (Article 95, Civil Code). However, the Civil Code does provide narrow exceptions that allow the terminating party to withdraw their notice of termination, even if the recipient has already received it (Articles 88 and 92, Civil Code):

- Mistake.
- Deception.
- Duress.

### Waiving a Right to Terminate

#### Agreeing to Waive Termination Rights in Advance

Under the principle of freedom of contract, parties can stipulate in a licence agreement that they waive their specific rights to terminate the agreement in certain circumstances. However, Taiwan laws seeks to prevent a party being forced to accept unfair clauses, such as waiving their termination rights. A clause waiving a party's termination rights may be deemed invalid under Article 247-1 of the Civil Code if it is regulated in a standard form contract (for more information on standard form contracts, see Termination for Any Breach).

#### Waiving a Termination Right by Conduct

Additionally, where a party takes no action to terminate an IP licence agreement when they have a right to do so, it is arguable that they waive this right. To avoid a dispute, parties should specify in the agreement that the following do not constitute waivers:

- Failing to exercise a known termination right.
- Not exercising a known termination right in a timely manner.

However, the licence agreement includes a specific period for a party to exercise their termination rights (such as issuing a prior two-month termination notice), any delay by that party beyond that period could adversely impact the validity of termination. Clear and explicit clauses should specify whether a delay in exercising termination rights beyond the required period still results in a valid termination.

### Consequences of Wrongful Termination

If a party wrongfully terminates a licence agreement, such as by purporting to terminate without any legitimate cause based on relevant law or the agreed terms, the wrongful termination is deemed invalid, and the licence remains effective. Subsequently, if that party refuses to perform their obligations under the licence agreement, their non-performance constitutes a breach of contract. The other party may then exercise their own right to terminate the agreement and seek remedies in accordance with relevant laws or clauses outlined in the agreement.

It is also good practice to specify whether a wrongful termination is itself a breach of contract and, if so, the applicable remedy, for example:

- Damages for the recipient of an invalid termination notice.



- Giving the recipient their own right to terminate the licence agreement.

For more information regarding termination of agreements for breach of contract, see Termination for Breach.

### Alternatives to Termination

If there are any disputes during the term of the licence agreement, parties can explore alternative resolutions instead of opting for termination. Renegotiating the disputed terms and amending the original licence agreement could be a viable alternative. However, the downside is that it is usually difficult for the parties to engage in amicable negotiations and reach a consensus, especially when one party has committed a material breach. In these circumstances, the parties can request a court-appointed mediator to start mediation proceedings. This may enhance the likelihood of a successful renegotiation.

### Steps to Take After Termination

#### Obligations that Survive Termination

Taiwan laws do not govern which obligations survive the termination of a licence agreement. However, obligations that, by their nature, the parties perform even after termination, survive termination, for example:

- Warranty of non-infringement.
- Limitation of liability clauses.
- Governing law and venue clauses.

These obligations automatically survive termination without either party needing to give notice or take any other step.

However, it is still recommended to include an explicit list of clauses that survive termination in a licence agreement to mitigate possible disputes. For the confidentiality obligation, some licence agreements not only provide that it survives termination, but also define how long it survives for after termination.

#### Return and Deletion of Know-How

In a licence agreement, it is customary to require the licensee to either return or delete any know-how in its custody on termination. Typically, the licensor retains the right to determine whether the licensee should return or delete it. To make performance more likely, the licensor normally requires the licensee to provide a written statement confirming they have fulfilled this obligation.

### Effect of Termination on Stock of Licensed Products Held by Licensee

It is common for parties to incorporate in an IP licence a sell-off period for the licensee to sell out remaining stocks of licensed products on termination. During this sell-off period, the licensee is still obligated to continue paying royalties under the payment terms.

There are no specific provisions in Taiwan law regulating the duration of the sell-off period, so the parties have flexibility to agree on an appropriate timeframe. A sell-off period of six months or less is typical.

### Effect of Termination on Sub-Licences

Typically, the terms and conditions of sub-licences mirror those of the original licence. Sub-licences commonly stipulate that the termination of the original licence automatically triggers the termination of the sub-licence. Furthermore, the licensee of the original licence usually has an obligation to ensure the proper termination of all sub-licences following the termination of the original licence.

If a sub-licence does not stipulate that it terminates on the termination of the original licence, either automatically or on notice, the sub-licensor would likely breach the sub-licence due to the impossibility of further performance. The sub-licensee would have the right to terminate the sub-licence immediately (Article 226, Civil Code) and may also be entitled to claim compensation (see Termination Due to Performance Becoming Impossible).

### Preparing for a Disputed Termination

To mitigate potential disputes following a contested termination, it is advisable for the parties to establish a clear dispute resolution mechanism within the licence agreement. Common options include mediation, arbitration, or litigation. When any of the parties is located outside of Taiwan, it is good practice to stipulate the governing law and exclusive jurisdiction for dispute resolution in advance.

In Taiwan, litigation is a common mechanism to resolve IP disputes. Taiwan has a dedicated court for IP matters, the IPC Court, with specialist judges. The IPC Court has broad jurisdiction and expertise to deal with IP disputes, including disputes arising from IP licences.

### Cancellation of Licence at National Registers or Offices

If the parties previously recorded a licence with the TIPO, it is advisable to apply for the cancellation of licence recordal after termination, even though parties are not obligated to record the termination of a licence.

## Terminating Licences of IP Rights (Taiwan)

Parties to a licence agreement for trademarks and patents can, but are not obligated to, record this licence with the TIPO. However, without recordal, the licence may not be legally binding against third parties (Article 62, Patent Act, and Article 39, Trademark Act). For instance, if the licensor licenses its trademarks to a third party after concluding an exclusive licence with an exclusive licensee, in the absence of recordal of the exclusive licence, the exclusive licensee may not be able to prevent that third party from securing the trademark licence. Therefore, it is crucial for parties to record the licence with the TIPO and ensure proper cancellation after termination of the licence.

Despite the great advantages that recording a licence with the TIPO can bring, parties in Taiwan do not commonly include clauses related to licence recordal or its cancellation in licence agreements. To safeguard parties' rights, it is recommended to incorporate relevant clauses addressing licence recordal.

### Avoiding Pitfalls

A common pitfall associated with terminating an IP licence in Taiwan is failing to identify whether a party can rightfully terminate the agreement in specific circumstances. It is advisable to address all plausible termination scenarios in the agreement.

Ambiguity surrounding post-termination obligations is another common pitfall in Taiwan. Disputes may arise, for example, over:

- Whether a party has a confidentiality obligation, or the scope of that obligation (see *Obligations that Survive Termination*).
- Whether the licensee has the right to sell their stock of licensed products after termination (see *Effect of Termination on Stock of Licensed Products Held by Licensee*).

To mitigate these risks, it is recommended to engage legal professionals to review agreements in advance to identify any omitted circumstances for termination and post-termination obligations.

If the licence is a standard form contract, a common pitfall involves the invalidity of some types of clauses under Article 247-1 of the Civil Code (see *Termination for Any Breach*). In practice, the licensor commonly drafts the terms and conditions of a licence, leaving

the licensee no room to negotiate the terms and having no option but to accept all terms. In this scenario, the following clauses could likely be deemed invalid:

- Releasing or reducing the responsibility of the licensor.
- Increasing the responsibility of the licensee.
- The licensee waiving their rights.
- Imposing restrictions on the licensee's exercise of their rights.
- Other matters gravely disadvantageous to the licensee (see *Termination for Any Breach*).

To address this standard form contract issue, while the licensor can include clauses in their favour, it is essential to consider that a court may find these clauses invalid.

To avoid these pitfalls and other risks, it is crucial for parties to include clear clauses specifying the following points in the agreement:

- Grounds for termination, including:
  - unilateral termination without cause (see *Unilateral Termination Without Cause*);
  - the kinds of breach that justify termination (see *Termination for Breach*);
  - a definition of material breach (see *Termination for Material Breach*); and
  - whether impossibility of performance can be a ground to terminate, regardless of whether it is attributable to any party (see *Termination Due to Performance Becoming Impossible*).
- When termination takes effect (see *When Termination Takes Effect*).
- Procedures and formalities for the termination notice (see *Giving Notice of Termination*).
- Post-termination obligations (see *Steps to Take After Termination*).
- Measures for handling products incorporating the licensed IP rights, such as sell-off periods (see *Effect of Termination on Stock of Licensed Products Held by Licensee*).
- Processes for licence recordal and recordal of termination (see *Cancellation of Licence at National Registers or Offices*).
- Alternative resolution in addition to termination, such as renegotiation of disputed terms (see *Preparing for a Disputed Termination*).
- Whether transfer of IP rights would impact an already granted licence.
- Dispute resolution mechanisms.

#### Legal solutions from Thomson Reuters

Thomson Reuters is the world's leading source of news and information for professional markets. Our customers rely on us to deliver the intelligence, technology and expertise they need to find trusted answers. The business has operated in more than 100 countries for more than 100 years. For more information, visit [www.thomsonreuters.com](http://www.thomsonreuters.com)