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# IT BYTES

## ANSWERING YOUR COMMON IT CONTRACT LAW QUESTIONS

# IS THERE AN IMPLIED RIGHT TO SUBLICENSE SOFTWARE?

## WHEN DOES THIS QUESTION ARISE?

**You have entered into a licence agreement with a software provider to use a brand-new contract automation tool for your business. The software significantly improves the efficiency of your contracting processes and you think it has great potential to deliver benefits across your broader corporate group, so you give it to a subsidiary of your business to trial. You are soon contacted by the software provider alerting you that you are in breach of your licence agreement for sublicensing the software without permission. You consult the licence agreement and there is no mention of sublicensing at all. The licence agreement was between your business and the software provider, with no mention of the broader group. So where does that leave you; do you have an implied right to sublicense the software?**

## WHAT DOES THE LAW SAY?

Where a right to sublicense software is not expressly provided for in a licence agreement, it is possible for such a term to be implied. In order for a right to sublicense software to be implied in a licence agreement, the term must satisfy the criteria set out by the High Court in *BP Refinery (Westernport) Pty Ltd v Shire of Hastings* (1977) 180 CLR 266 ***(BP Refinery)***.

The implied term must be:

a. reasonable and equitable;

b. necessary to give business efficacy to the contract (which will not be satisfied if the contract is effective without it);

c. so obvious that 'it goes without saying';

d. capable of clear expression; and

e. non-contradictory of the express terms of the agreement.

The above criteria were recently applied by the High Court to imply a right to sublicense copyrighted material in *Realestate.com.au Pty Ltd v Hardingham* (2022) 406 ALR 678 ***(REA)***. This appeal concerned an informal verbal licence agreement.

When considering the criteria set out in *BP Refinery*, the Court in *REA* emphasised the subjective nature of the criteria and that they must be applied flexibly to the term in question.[1] In particular, the Court stressed that there will be no universal set of conditions that must be satisfied for an implied term to be considered 'reasonable and equitable' or 'necessary to give business efficacy' to an agreement.[2] However, the Court did note that where a term is 'necessary' it will likely be 'obvious' as well.[3] The Court also noted that certain criteria, such as 'obviousness' and 'clarity', will have a stricter application in the context of a formal written agreement where the express terms are thorough and clear, compared to a more informal or verbal agreement.[4]

Most importantly, the Court held that 'the criteria serve only to answer the ultimate question: what would have been intended by a reasonable person in the position of the contracting parties'.[5] This question will normally require consideration of the text of the agreement, as well as the surrounding circumstances known to the parties, and the purpose and object of the transaction.[6] In considering these factors, the Court in *REA* determined an implied right to sublicense copyrighted material was the 'natural and obvious implication' contained in the agreement.[7]

As such, in the absence of an express provision, there will be no general right to sublicense software - whether such a right will be implied will depend on the terms of your agreement and the nature of the transaction. This could include consideration of the function that the software was intended to perform (e.g., whether in the ordinary course it would be necessary for third parties such as related entities or third party service providers to interact with the software in order to realise the business outcome it was designed to achieve).

## WHAT ARE THE PRACTICAL IMPLICATIONS FOR YOUR CONTRACT?

Where you have a pre-existing licence agreement which makes no reference to sublicensing, it will be necessary to determine whether a reasonable person would have intended for such a right to have existed in the agreement. In our initial scenario, the right to sublicense was arguably not necessary to give effect to the agreement, as the software could be used by the parent company for its own benefit without the subsidiary having access.

While it may be possible to have an implied right to sublicense this will only be possible if there is no express term to the contrary. To avoid doubt it is better to deal with the issue upfront in the express terms of your agreement, whether it be to expressly permit or disallow sublicensing. This will ensure that the agreement reflects the intended use of the software by both the licensor and licensee and will limit the risk of future disputes regarding its permitted use. It will be far simpler and cost efficient to negotiate a right to sublicense software from the outset, than to have such a right be later determined by the courts.

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1 *Realestate.com.au Pty Ltd v Hardingham* (2022) 406 ALR 678, 705 [114]-[116], 707 [121] (Edelman and Steward JJ) ('*REA*').

2 Ibid 690 [51] (Gordon J), 705 [114] (Edelman and Steward JJ).

3 Ibid 683 [20] (Kiefel CJ and Gageler J).

4 Ibid 705 [114], 707 [121]-[122] (Edelman and Steward JJ).

5 Ibid 705 [115] (Edelman and Steward JJ).

6 *Toll (FGCT) Pty Ltd v Alphapharm Pty Ltd* (2004) 219 CLR 165, 179 [40] (Gleeson CJ, Gummow, Hayne, Callinan and Heydon JJ).

7 *REA* (n 1) 710 [134] (Edelman and Steward JJ).

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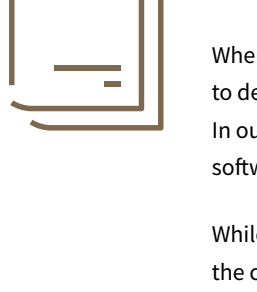

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