

**Italian Supreme Court Decision n. 20250/2021 of 15 July 2021: no software infringement when a computer program, which does have the same functionality as another program, is based on a new and different source code**

With decision no. 20250/2021 of 15 July 2021, the Italian Supreme Court ruled on a software case, holding that there is no infringement between two computer programs due to a clear difference in the formal expression of the two programs, constituted by the source code. Indeed, as clarified by the Supreme Court, while a reproduction that involves the creation of a product that is similar in its expressive form is prohibited, an original reinterpretation of the same IT system does not rise to the level of infringement.

**Background**

The proceedings at issue involved the plaintiff Ales Srl (“ALES”) and the defendant EDS - Electronic Data Systems Italia Srl which, *medio tempore*, changed its name to HP Enterprise Services Italia Srl (“HP ESI”).

ALES, a company operating in the IT sector, had developed an electronic scrutiny procedure, and the related software application (computer program) aimed, among other things, to identify a voter, certify their right to vote, manage the counting of the ballot papers independently and process the data. The result of this procedure would be a document containing the details of the transaction, and results would be transmitted telematically.

In April 2004, ALES entered into an agreement with HP ESI for 1250 user licenses for the program, called “Seggio Elettronico e-voto”. The agreement included a prohibition on the exploitation or imitation of the software, except as specifically agreed in this regard in the agreement.

In the case at issue, ALES argued that, after signing this agreement, HP ESI then unlawfully appropriated the procedure, the product, the inventive idea, and the technical solutions that had been subject to the license. Accordingly, it claimed that HP ESI’s conduct was illicit and amounted to a violation of the agreement, requesting the Court to find HP ESI liable and to order it to pay compensation for the damages suffered.

HP ESI replied, among other things, that the software it developed was completely different from that created by ALES, that in any case the procedure at issue was not protectable under the copyright law and that, based on the provisions of the agreement, HP ESI was allowed to make changes to the program. In turn, it asked the Court, among other things, to order ALES to pay compensation for damage to its image and reputation.

ALES’ claims were rejected in all three instances of the proceedings. Before turning to the Supreme Court’s decision and examining the legal principles set forth therein, it is useful to briefly discuss the two decisions delivered by the first and second instance judges.

## **First instance decision: Court of Rome**

Preliminarily, the Court highlighted that ALES' software is related to a procedure concerning the management of electoral operations in a broad sense, which describes the set of functions (thus, results) that the software performs when it is used (for example, identification of the voter, acquisition of the vote and sound reproduction of the vote expressed while a webcam records the voting activities displayed by means of a monitor).

In the first place, the Court assessed whether, as ALES claimed, the HP ESI program infringed ALES' software.

First of all, it recalled that, in accordance with the provisions of art. 2, no. 8, of the Italian Copyright Law, no. 633/1941 ("ICL"), the procedure is not a protectable work, with all that derives from this fact in terms of the groundlessness of ALES' complaints about the intended use of the related procedure of the software by HP ESI. Naturally, the software itself can be protected if it is original (namely, if it expresses the creativity of its author).

That said, the Court held that, in this case, ALES' software was not infringed. Indeed, the heart of the software is the sequence of indications which represents the source code: the instructions given to the machine for the program to run and to allow it to achieve the objectives to which the software itself is functional. The ICL protects the result achieved by running the computer that executes the instructions that are given to it and are translated into the so-called "machine language". It follows that it is legitimate to create programs that satisfy the same functional and managerial needs in order to achieve the same purpose/result. In particular, a software that is based on a new and different source code and which, therefore, is original, can be created even if it has similar functionalities to those of other existing software. In the present case, there was no infringement in the light of the differences in the source codes of the ALES and HP ESI software, which were confirmed by the technical expert appointed by the Court.

Before the Court, ALES had also claimed a violation of art. 64-quater of the ICL, according to which it is not necessary to obtain authorization from the owner of the rights on the software to use or transmit information obtained by decompilation to third parties, so long as such use or transmission is aimed at obtaining interoperability with the original program.

According to ALES, HP ESI reworked (or modified, transformed) the original software in violation of art. 64-quater of the ICL, in the absence of the conditions required by the law.

In light of the difference between the two software programs that were identified by the Court's technical expert, the Court held that HP ESI's activities did not amount to a simple modification that would have been prohibited by the provision in question, but rather the creation of a new program. Furthermore, and in any case, the license agreement itself allowed HP ESI to modify the software and the procedure in order to adapt them to supervening circumstances.

Then, ALES also argued that HP ESI's conduct amounted to acts of unfair competition pursuant to art. 2598, n. 1 and n. 3., Italian Civil Code ("CC").

As the Court pointed out, unfair competition for slavish imitation (art. 2598, n. 1) only concerns the reproduction of individualizing external forms of the product - which ALES did not even allege - and not those made necessary by the functionality of the product, as in the present case.

With regard to unfair competition for acts contrary to the principles of professional correctness (art. 2598, n. 3), according to ALES, HP ESI's conduct was illicit because it unlawfully exploited the

knowledge of the ALES program, the technical documentation and the codes, creating a software with the same content and which performs the same functions. However, the Court disagreed, holding that HP ESI's conduct was not unfair since first, it had created a different software (even though it had a similar functionality) and, thus, there was no infringement, and secondly, that it was contractually allowed to modify the original software.

### **Second instance decision: Court of Appeal of Rome**

ALES challenged the decision before the Court of Appeal of Rome. First of all, the Court of Appeal agreed that - in accordance with the findings of the technical expert at first instance - there were overall differences between the ALES and HP ESI programs, and that the creation of a new original program, which also satisfies the same functional features as a pre-existing program, is not in itself unlawful.

Having said that, the Court of Appeal noted that ALES, with the first ground of appeal, alleged a breach of a series of contractual clauses governing the relations between the parties, including art. 8 and art. 2.

Indeed, art. 8 allowed HP ESI to communicate information received from ALES to certain third parties and to freely use the experiences acquired in execution of the agreement, while prohibiting HP ESI from exploiting and/or imitating the program. Again, as ascertained by the court expert, in this case the program had not been imitated.

As for art. 2, the following activities would constitute a violation of this clause: (i) the creation of a different program that satisfies the same needs and constitutes an imitation, (ii) HP ESI granting third parties an unlimited right to use the ALES program and/or (iii) HP ESI failing to carry out the control and support activity required by the contract to protect the rights of ALES. As HP ESI had created a different program that satisfies the same needs, but is not an imitation, and it was this program that was made available to third parties - not the ALES program - HP ESI's activities did not constitute a violation of art. 2. Further, as no violation of the contract had occurred, it was not necessary for HP ESI to carry out further control and support activities.

With the second ground for appeal, ALES argued that the first instance decision was incorrect in relation to the alleged violation of art. 64-quater of the ICL.

The Court of Appeal considered this ground to be unfounded, since the claim presupposes both that HP ESI's program was a modification of ALES' program, instead of an entirely different program, and that the mere fact that the two programs perform the same function is unlawful, whereas this circumstance is perfectly legitimate.

In its third ground, ALES again alleged that HP ESI's conduct constituted unfair competition due to servile imitation (n. 1) and acts that are contrary to the principles of professional correctness (n. 3).

This ground was also considered unfounded, insofar as, held correctly by the first instance Court, unfair competition by slavish imitation concerns the reproduction of the external individualizing forms of the competing product and not also of the functional aspects, while ALES itself recognized that its program did not present significant and individualizing extrinsic characteristics but, rather, only functional characteristics. The Court of Appeal concluded that, if the imitation of the functional characteristics of a program constituted servile imitation, it would lead to the consequence that, once a program with a certain function is created, no other entrepreneur could legitimately create a program that realizes the same result, which would be contrary to the principles of market

competition. The same considerations apply with regard to the claim relating to unfair competition for acts contrary to the principles of professional correctness.

### **The Supreme Court decision**

ALES filed an appeal against the decision before the Italian Supreme Court on the basis of three grounds.

The first ground was dismissed outright as inadmissible, since ALES had requested the Court to undertake an independent examination of the facts, which is precluded by the rules of procedure of the Supreme Court.

With the second ground, ALES set forth the violation and/or misapplication of art. 64-quater of the ICL, as the decision failed to examine the factual circumstances relating to the violation of this provision, as well as the fact that the licensee cannot use the information obtained by decompilation.

The Supreme Court found that art. 64-quater, paragraph 2, lett. c) of the ICL prohibits a licensee from using the information obtained through the reproduction of the source code for the development, production or marketing of a program that is substantially similar in its expressive form to another program or for other activities that violate the right of author.

In the present case, as observed by the technical expert at first instance and reiterated in the contested decision, the programs of ALES and HP ESI exhibit clear differences in the formal expression constituted by the source code. In particular, in the case at hand, the allegedly infringed software was not deemed to have the *“central core of the protected work that makes the reproductive activity of others punishable, indeed lacking that expressive identity between the two compared programs, because of which it can be considered that the second one is a cleverly disguised reproduction (Cass., Sec. I, 27/1/2005, n. 20925) of the previous one and not rather a way of interpreting the same electronic subject in an original way”*.

The third ground concerns unfair competition. The Supreme Court, highlighting that even with this ground of appeal ALES requested a new factual evaluation, nevertheless it noted that the contested decision was lawful, considering that, indeed, servile imitation occurs only with the reproduction of individualizing external forms, and not of those that are made necessary by the functional characteristics of the product.

Therefore, the Court rejected ALES' appeal.

### **Conclusions**

This decision, like those of the first instance Court and the Court of Appeal, is notable because it traces the boundaries of the protection conferred on software and, conversely, the boundaries of infringement of any kind.

Provided that the Italian Copyright Law does not protect the ideas and principles on which the software is based, the decision first clarifies that software consists of a series of instructions that form the source code and make it work in a certain way. If a software achieves the same functions of another software, but is equipped with a different source code, it therefore does not constitute a mere imitation. In other words, duplication of the code may be prohibited, but not of the idea behind the code itself.

This means that there may legitimately be found on the market “competing” software which, while performing the same functions, are fully legitimate to the extent that they have different source codes.

Secondly, if a different software is created from a previous software, which has a different “core”, it means that a new and autonomous software has been produced, as opposed to a modification of the previous software. This implies that art. 64-quarter of the ICL, which, exceptionally, does not require authorization of the owner in the event that the form of the code is modified to obtain the information necessary for the interoperability of the software with other programs, and provided that the conditions laid down in this provision are met, does not apply.

Thirdly, unfair competition for slavish imitation does not apply on software merely because a computer program has the same functional characteristics as another program and, therefore, has the same content and meets the same needs. Indeed, to successfully claim unfair competition for slavish imitation, it is necessary to reproduce external individualizing forms of the competing product, as opposed to only the functional characteristics.

Once again, the fact that two software programs perform the same function does not appear to be a decisive factor. Although the software, by its nature, is not a product with an external form in the strict sense, to ascertain any liability for unfair competition, the courts applied the established case-law principles, without resorting to special criteria or derogations. In fact, in practice, it is difficult to imagine cases in which protection for servile imitation can be invoked in relation to software, as it lacks those peculiar extrinsic characteristics which, if replicated, are capable of causing imitation that is confusing for the consumers and, accordingly, punished under art. 2598, n. 1, CC.