

## COMPETITION

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# Facebook v. Business Competence S.r.l.

Company Law Division of the Court of Milan, Ruling No. 9549, 1 August 2016

The Court held that Facebook was liable for acts of unfair competition and copyright infringement against Business Competence S.r.l, a client company. The Court found that Facebook had copied the plaintiff's location-sharing app Faround when creating its own app of a similar nature.

The Court held that Facebook S.r.l., Facebook Inc. and Facebook Ireland Ltd. ('Facebook') were jointly liable for acts of unfair competition and copyright infringement against Business Competence S.r.l. ('BC'), a client company. According to the ruling, Facebook copied its app 'Nearby' from a location-sharing app called Faround, which was developed and owned by BC. The Court prohibited Facebook from making further use of Nearby in Italy and ordered the ruling to be published in two national daily newspapers and on Facebook's website. Interestingly, Facebook filed an application before the Milan Court of Appeal to suspend the provisional enforceability of the ruling. However, on 28 December 2016, the Appeal Court rejected the application and the proceedings continued on the merits.

The ruling represents arguably the first time that Facebook has been held responsible for such infringements towards a client company. It tackles issues relating to copyright protection in databases and sets down guidelines for determining when de-compilation practices - such as reverse engineering of complex algorithm-based products - constitute acts of unfair competition. The ruling thus contributes to the further evolution of the analytical framework for copyright and competition law assessment in the information and communications technology sector.

### Background

BC is an Italian startup providing online marketing services. In 2012, it developed Faround, a mobile app, which allows

for the selection and collection of data from the Facebook profiles of users. Faround features an interactive map displaying shops and stores, indexed by category, in the vicinity of subscribers, together with information concerning available discounts and coupons. Companies with a Facebook presence became commercially interested in subscribing to Faround in order to appear among the results displayed on the virtual map and gain significant visibility to potential customers.

Prior to developing Faround, BC obtained access to the Facebook platform as an independent software developer, creating applications designed to work within the Facebook operating system. BC invested €0.5 million in developing and launching the app. In September 2012, Faround was registered on the Facebook App Center, and accepted by the Facebook App Store in October 2012, together with all the apps compatible with the social network, achieving substantial success. However, just a few weeks later, in December 2012, Facebook launched Nearby, an app rivalling Faround, which, in the Court's view, cloned the latter's concept and format, merely modifying the graphic display layout.

### Databases as original works of a creative nature

The Court qualified Faround as a database implemented in the form of a computer program and protected as a creative work. Under Italian Copyright Law (no. 633 of 22 April 1994), databases are considered intellectual creations of their developers or authors, 'based

on the selection or arrangement of the material in question' (Article 1.2).

The qualification of Faround as a database is consistent with Directive 96/9/EC (the 'Database Directive'), also recalled in the Court's ruling. According to Article 1.2 of the Database Directive, 'databases' are 'collections of independent works, data or other material arranged in a systematic or methodical way and individually accessible by electronic or other means.' To obtain copyright protection, databases must satisfy the originality requirement: pursuant to Article 3(1) of the Database Directive, databases are only original if, 'by reason of the selection or arrangement of their content, [they] constitute the author's own intellectual creation!'

In assessing Faround, the Court specified that according to case law, in order for a work to satisfy the originality requirement and thus receive copyright protection, it must be a "creative act," however "minimal." This implies that creativity, which arises from the intellectual wealth of individuals with experience in a particular area, cannot be excluded simply because the work in question consists of simple ideas and concepts (Italian Civil Supreme Court, judgments nos. 12314/2015, 17795/2015, 9854/2012). This reasoning also appears consistent with the Database Directive, which does not require a database to be particularly inventive, sophisticated or efficacious. Applying this originality standard, the Court rejected Facebook's arguments that Faround was not original because several geolocation apps existed before Faround was created and launched. The

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Court contended that these previous apps were different from Faround. In particular, unlike Faround, Yelp and Foursquare were not integrated with Facebook and did not enable communication with data from Facebook profiles, while Facebook's Deals and Places apps were rudimentary geolocation programs with fewer functions.

Hence, no prior art assembled all of Faround's functionalities in one single app designed for the Facebook platform. Moreover, those apps did not apply the same data selection and indexation criteria as Faround.

#### The limits of lawful de-compilation at the crossroads of unfair competition and free-riding

The ruling notes that Facebook did not provide any concrete evidence - including the source code - showing that it "independently" developed Nearby. The Court therefore found that Facebook had likely engaged in parasitic behaviour by creating Nearby as a derivative product of Faround, with similar functionalities, purpose and general arrangement.

In the Court's opinion, Nearby's development was made possible by the "privileged and early" access Facebook had gained to the prototype of Faround, under the pretext of testing the app's compatibility with its platform. This occasion allowed Facebook to analyse Faround's functionality and operating mechanisms before it went public, through an activity of de-compilation and reverse engineering<sup>2</sup>. As a result, Facebook was ruled liable for unfair competition under Article 2598(3) of the Italian Civil Code, for carrying out a "parasitic appropriation of the investments of others in order to create a work of significant economic value." In practice, according to the ruling, Facebook took a free-ride on BC's research and development investments, while abusing the relationship of trust and confidence established by hosting BC on its platform. Facebook rebutted that its conduct was authorised by a contractual clause that entitled it to "create applications that offer functions and services which are similar to the developers' applications or which are in competition with those applications." However, the Court held that this provision must be construed in accordance with the principle of good

faith and, therefore, presupposes that programs are developed "independently," which did not occur in the case at hand. It follows that Facebook was not, in any way, authorised to analyse and decompile Faround in order to develop a similar application designed for the same user target. Any other interpretations of such clauses, aimed at expanding the lawfulness of de-compilation activities, would make them null and void.

Applying these principles, the Court declared null and void the provision "applicable to developers/operators of applications and websites," relied upon by Facebook to justify its conduct, which stated "[w]e may analyse the applications, content and data for any purpose, including commercial ones." In fact, according to Art. 64-ter of the Italian Copyright Law, analysis activities aimed at detecting a program's operating mechanism are permitted only insofar as they remain limited to "the program's intended use." Besides, the Court maintained, they are never permitted for commercial purposes. In the present case, Facebook's right to analyse Faround was confined to its intended use, i.e. testing the app's compatibility with the Facebook platform. The Court thus clarified that such a clause cannot, under any circumstance, legitimise analysis/de-compilation activities for objectives other than those connected with the app's compatibility test.

#### Conclusions and perspective

Social media applications have enhanced the ubiquitous creation of information by consumers, while the users' need to consume more content and constantly communicate have permitted new business models and companies to flourish.

The ruling under comment contributes to drawing a line between lawful de-compilation and acts of unfair competition. It also provides useful guidance as to the fate of contractual restrictions imposed on app developers and companies analysing those apps for their own commercial purposes. Though under scrutiny in decades past, reverse engineering has recently sparked renewed discussion in the EU with the new Trade Secrets Directive (2016/943), which specifically allows for it (Art. 3(1)(b) and recital 16). Once this Directive is implemented at the national

level, issues similar to those at hand may rise in contracts and courts. In the ruling, through indepth factual analysis, the Court took some distance from the general debate on the pros and cons of de-compilation. However, the legal framework may need further refining, particularly in light of a seemingly aggressive business pattern emerging.

Facebook had already faced lawsuits alleging trademark infringements to the detriment of new apps and features, which it has normally settled by buying the disputed apps<sup>3</sup>. This is one of the few instances where the case reached its final conclusion, establishing an important milestone in the fight against social media platforms' unfair practices. If "imitation is the sincerest form of flattery" - in Charles Colton's words - incumbent social media should nonetheless beware: this ruling shows that this form of flattery is not always well received in the innovation-driven market of software applications. Courts will likely increasingly be concerned with ensuring that competition is based on technological design and engineering superiority, and not on unfair competition.

1. According to several decisions taken by the EU Court of Justice, some of which were also mentioned in this ruling, in "the setting up of a database, that criterion of originality is satisfied when, through the selection or arrangement of the data which it contains, its author expresses their creative ability in an original manner by making free and creative choices and thus stamps its 'personal touch' [on the structure of the database]." *Football Dataco v. Yahoo!* UK (C604/10) [2012] E.C.R. 0000; [2012] E.C.D.R. 10, [32] and [38]. See also *Infopag International v. Danske Dagblades Forening* (C5/08) [2009] E.C.D.R. 16, [45]; *Bezpečnostní softwarová asociace v. Ministerstvo kultury* (C393/09) [2011] E.C.D.R. 3, [50]; *FAPL v. QC Leisure* (C403/08 and C429/08) [2012] E.C.R. I9083; and *Painer v. Standard Verlags GMBH* (C145/10) [2013] E.C.R. 000 [2012] E.C.D.R. 6, [89].
2. The European legislator has already addressed this issue earlier in relation to copyright protection of computer programs. Article 5(3) of the Software Directive (2009/24/EC) allows for the so-called black-box analysis of software protected under copyright law. More precisely, it entitles the person who has the right to use the program to 'observe, study or test the functioning of the program in order to determine the ideas and principles which underlie any element of the program if he does so while performing any of the acts of loading, displaying, running, transmitting or storing the program, which he is entitled to do.'
3. E.g., in May 2013, Facebook reached a settlement with Timelines.com, which sued the social network in September 2011 when its then new user profile was termed 'Timeline.'