IT – THE SUPREME COURT ON THE CALCULATION OF FAIR COMPENSATION OF EMPLOYED INVENTORS

With its decision no. 1111 on 20th January 2020, the Italian Supreme Court issued a ruling on employees' inventions, with reference to the right to a fair compensation.

The Italian legislator distinguishes three different situations for employees' inventions, and provides for different rules on their ownership and rights of the employee for each scenario:

i) the invention is made in the performance of an employment contract which (explicitly) contemplates the performance of inventive activity and provides for a specific remuneration for such activity;

ii) the invention is made in the performance of an employment contract which does not (explicitly) contemplate the performance of inventive activity and/or a remuneration for such activity;

iii) the required conditions set by the first two cases do not apply, but the invention falls within the employer's field of business.

In the second scenario, the most frequent one, the employer owns the invention (as in the first scenario), but the employee is entitled to a fair compensation (as opposed to the first scenario)[1]. However, the conditions for obtaining such compensation, as well as its calculation method, have been debated for a long time by Italian case law and scholars.

The case at stake concerned the company Danieli & C Officine Meccaniche ("***Danieli***"), a large company active in the metal industry. Danieli was ordered in first instance, by the court of Udine, to pay the sum of euro 1,277,170.00 to a former employee as fair compensation for certain inventions developed by the latter. The judge identified the former employee as the author or co-author of several inventions developed for the benefit of the company and consequently ruled that the former employee was entitled to the compensation. The Court of Appeal of Trieste confirmed the right of the employee to a fair compensation, but the latter was reduced to Euro 466,111.00.

The former employee appealed the decision before the Italian Supreme Court, challenging the criteria adopted by the Court of Appeal for the calculation of the fair compensation. According to the appellant, the judge of the appeal assessed the relevance of the invention only in concrete terms, by using the so called "German formula".

The "German formula", widely used by Italian Courts for the calculation of the fair compensation is the method laid down in the *"Guidelines for the remuneration of the employee's inventions in private employment"*

[1] In the third scenario the employer has an option right

by the German Federal Ministry of Labour in 1959 for the calculation of inventor employee's compensation from the employer. The formula is I= VxP, where "I" is the amount of the compensation paid to the employee, "V" is the value of the invention – more specifically, the sum that the company should pay to acquire the right to use the invention if patented from a third party – and "P" is a share factor which depends on several circumstances (the task of the employee, how the technical problem was solved and the employee's tasks and position in the company).

Danieli, in turn, challenged the assessment of the relevance of the invention, made by the Court arguing that such assessment had been made only with regard to the royalties criterion, not taking into account *inter alia* that the patented inventions did not ensure any competitive advantage in those countries where the patents were not effective.

The Supreme Court rejected both the appeal and the cross appeal. The Supreme Court clarified that the calculation of the fair compensation should not exclusively consider the "commercial value" of the invention, as a result of using the "German formula". According to the Supreme Court, the Court of Appeal of Trieste correctly carried out an equitable assessment that took into account also the potential for economic exploitation of the invention.

The Italian Supreme Court interpreted the legislation on patents temporally applicable to the case set forth by Article 23.2 RD no. 1127/39 ("***Former Italian Patent Law***"). Former Italian Patent Law specified that in determining the compensation, the importance of the invention had to be considered without, however, providing any additional indications.

The decision of the Italian Supreme Court is nevertheless interesting: the current legislation applicable to employee's inventions (Article 64 of the Industrial Property Code) still refers to the importance of the invention among other factors which have to be considered for the determination of the fair compensation.

The current legal framework applicable to employees' inventions is the result of two subsequent legislative amendments. The first, Legislative Decree 10th February 2005, no. 30 (commonly referred to as the current Italian Industrial Property Code), introduced new factors to be considered for the calculation of the fair compensation, such as: (i) the importance of the protection conferred to the invention by the patent; (ii) the tasks and duties assigned to the employee; (iii) the salary of the inventor; (iv) the contribution received by the employee from the employer's organization.

The second one, Legislative Decree 13rd August 2010, no. 131, once again amended the criteria for determining the fair compensation: whilst it maintained the other factors, it replaced the "importance of the protection conferred to the invention by the patent" again with the "relevance of the invention".

The current discipline seems to recognize the importance of the "German Formula", although the criterion of the "importance of the invention" has been restored. The restoration of this criterion has been the subject of debate as to how it should be interpreted.

The amendment made by the legislator was necessary in order to avoid a terminological contradiction within the context of Article 64.2, specifically where it now awards to the employee the right to a fair compensation even if the invention is exploited by the employer as trade secret (i.e. under secrecy regime), although the provision on determination of fair compensation made reference to "patent" protection.

It is unclear however if the purpose of the legislator was only to remove this contradiction or to amend the statutory rule on a substantial level.

More specifically, it is debated by scholars whether the calculation of the fair prize must be carried out on the basis of an absolute "abstract" value of the invention, or by identifying the actual economic advantage for the employer arising from the exclusive exploitation of the employee's invention.

In the latter case, should the invention not be economically exploited by the employer, the value of the invention for calculating the fair compensation would be equal to zero.

However, it should be noted that the underlying rationale of this rule is, according to the explanatory memorandum of the legislator to safeguard the interests of the employer. Arguably, the compensatory nature of the "fair prize" should be prominent, and it should not be compared to a consideration to be awarded to the employee. Therefore, the value of the fair compensation should be determined based on the actual economic advantage that the invention brings for the employer's organization.

A calculation based on an abstract absolute value of invention, disengaged from any objective data, would lead to uncertain and contradictory solutions.

The Supreme Court seems to have realized this risk, stating that although the use of the "German formula" is not *per se* sufficient for the determination of the fair compensation, the calculation must in any case be anchored to certain actual criteria (for instance, the potential for economic exploitation of the invention).

In conclusion, taking into account the long debate over the criteria to liquidate employees' fair compensation, which was reignited rather than faded in furtherance to the various legislative amendments, a further clarifying intervention by the Supreme Court on the determination of fair compensation would be desirable to clarify what are the criteria to be applied and in particular if a plain application of the "German formula" is possible or not.

Luca Giove – Filippo Biancotto

GR Legal