November 11, 2019

UK Supreme Court Decides Former Unilever Employee Entitled to Compensation Under Patents Act 1977

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On 23 October 2019, the UK Supreme Court decided that Professor Ian Shanks, a former employee of Unilever UK Central Resources Ltd ("UCRL"), a wholly owned subsidiary of Unilever plc, was entitled to compensation under section 40 of the Patents Act 1977 (the "1977 Act"). This was because certain patents in relation to an invention developed by Professor Shanks were held to have been of outstanding benefit to his employer and he was entitled to a fair share of the benefit. The case considers important issues regarding when such compensation may be awarded and how compensation levels are decided.

Background

Professor Shanks was an employee of UCRL between May 1982 and October 1986. In August 1982 he identified a possible new product comprising a limited re-use or disposable sensor for monitoring glucose, insulin or immunoglobulin levels in diabetics. In October 1982 he built the first prototype of an invention that has since become known as the Electrochemical Capillary Fill Device ("ECFD") and also developed a similar system known as the Fluorescent Capillary Fill Device ("FCFD"). Professor Shanks agreed that the rights to these inventions always belonged to UCRL in accordance with section 39(1) of the 1977 Act. Such rights were assigned to Unilever Plc for £100 and subsequently to other Unilever group companies. Various patent applications were filed, the first relating to both the ECFD and FCFD technologies, with subsequent applications relating only to the ECFD technology in different jurisdictions, and certain patents were granted (the "Shanks Patents").

In October 1987 Unilever sold the FCFD technology and related patents. During the late 1990s and 2000s Professor Shanks' ECFD technology became something that most major players in the market were prepared to pay millions of pounds to use. Seven licences or sets of licences of the Shanks Patents were granted by Unilever to third parties. In 1994 responsibility for the Shanks Patents was transferred to Unipath, another Unilever group company, and in 2001 Unipath and the Shanks Patents, together with the benefit of the licences under them, were sold. In total, Unilever's net benefit from the Shanks Patents amounted to approximately £24 million.

Professor Shanks applied for compensation in June 2006, but the hearing officer for the Comptroller General of Patents (the "Comptroller") decided in June 2013 that, bearing in mind the size and nature of Unilever's business, the benefit provided by the Shanks Patents could not be described as "outstanding". The hearing officer did, however, conclude that 5% would have been a fair share of the benefit had the benefit to Unilever been deemed to be outstanding. Professor Shanks appealed to the High Court, but the appeal was dismissed. Interestingly, the High Court held that, if the Shanks Patents had been found to be of outstanding benefit to Unilever, a fair share of the benefit would have been only 3%. The High Court also decided that the time value of money should not be considered and that, when assessing the benefit of the Shanks Patents to Unilever, corporation tax payments should be deducted from the amounts received. Professor Shanks' appeal to the Court of Appeal was also dismissed, although the Court of Appeal disagreed over deduction of corporation tax and whether the change in the value of money over time was relevant. Professor Shanks then appealed to the Supreme Court.

The Supreme Court considered various issues, including (i) what the principles governing the assessment of outstanding benefit to an employer are and whether the hearing officer acting for the Comptroller applied them correctly; (ii) how a fair share of an outstanding benefit should be assessed and whether the hearing officer and the High Court judge were wrong in their assessment; and (iii) whether, when deciding what amounts to a fair share of an outstanding benefit, it is appropriate to consider the time value of money and any tax liability of the employer.

Entitlement to Compensation

Sections 39-43 of the 1977 Act relate to employee inventions. Essentially, under Section 40(1), employees who develop inventions belonging to their employers from the outset in respect of which patents are granted are entitled to compensation if the employee establishes (i) that the patent is, having regard among other things to the size and nature of the employer's undertaking, of outstanding benefit to the employer; and (ii) that, by reason of these matters, it is just that the employee be awarded compensation.

Section 41 relates to levels of employee compensation. Essentially, employee compensation awards under Sections 40(1) and (2) of the 1977 Act regarding patents for inventions must secure for the employee a fair share (having regard to all the circumstances) of the benefit that the employer has derived, or may reasonably be expected to derive, from the patent or from the assignment, assignation or grant to a person connected with the employer of the property or any right in the invention or the property in, or any right in or under an application for that patent.

Section 41(4) provides that, in determining the fair share of the benefit to be secured for an employee regarding a patent for an invention that has always belonged to an employer, various matters should be considered, including (i) the nature of the employee's duties, his remuneration and other advantages he derives/has derived from his employment, or has derived in relation to the invention under the 1977 Act; (ii) the effort and skill devoted by the employee to making the invention; (iii) the effort and skill devoted by any third party to making the invention jointly with the employee concerned and the advice/other assistance contributed by any other employee who is not a joint inventor; and (iv) the contribution made by the employer to the making, developing, and working of the invention by providing advice, facilities, other assistance and opportunities and by his managerial and commercial skill and activities.

Who is the Employer?

To determine whether an employee is entitled to compensation, first it is necessary to identify the employer, which is the inventor's actual employer.

What is the Benefit?

Next, the benefit to the employer must be identified. Essentially, under Sections 41(1) and (2), in deciding the benefit derived or expected to be derived by an employer from an assignment of the patent to a person connected with him, the position of the actual employer and the benefit that the assignee has gained or is expected to gain must be considered. In assessing the benefit of the patent, this means the benefit in the hands of the employer after deducting any costs incurred by the employer in securing the benefit.

Is the Benefit Outstanding?

The issue of whether the patent has been of "outstanding benefit" must also be considered. Lord Kitchin held that "outstanding" is an ordinary English word meaning "exceptional or such as to stand out" and considered that this refers to the benefit (in terms of money or money's worth) of the patent to the employer, rather than to the degree of inventiveness of the employee. Lord Kitchin noted that this is both a relative and a qualitative term, meaning that he had to consider the context in which the question is asked and answered and the factors that must be considered in making the assessment. The 1977 Act provides that the size and nature of the employer's undertaking must be considered and the Supreme Court considered what is the employer's undertaking for this purpose and what is the relevance of the size and nature of that undertaking.

The Employer's Undertaking

Lord Kitchin confirmed that an "undertaking" for these purposes may be the whole or a division of an employer's business. He concluded that, where a group company operates a research facility for the whole group's benefit and the

work results in patents that are assigned to other group members for their benefit, when deciding whether any one of those patents is of outstanding benefit to the company, what must be considered is the extent of the benefit of that patent to the group and how that compares with the benefits that the group obtains from other patents for inventions arising from the research carried out by that company.

The Relevance of the Size and Nature of the Employer's Undertaking

The Supreme Court also considered the relevance of the size and nature of the employer's undertaking. Lord Kitchin agreed with the Court of Appeal that "outstanding benefit" cannot be decided just by comparing the income generated by a patent with the overall turnover and profitability of the employer's undertaking, as this would make it virtually impossible for employees to establish that patents have been of outstanding benefit to businesses like Unilever, which would be obviously unfair. However, he also considered the relevance of the size and nature of an undertaking to the assessment of whether the benefit to it from a patent is outstanding and how these issues should be borne in mind.

Lord Kitchin considered that, in this case, a very significant consideration must be the extent of the benefit of the Shanks Patents to the Unilever group and how this compared with the benefits obtained by the group from other patents issuing from work carried out at UCRL. Lord Kitchin noted that in some instances, it may be possible to see that a patent has been of outstanding benefit to an employer by examining the size and profitability of the whole business, while with smaller companies a simple comparison of profitability may suffice to show an outstanding benefit without taking into account wider considerations of the scope of an employee's duties, or the employer's expectations regarding anticipated level of return.

Lord Kitchin also observed that large organisations may have greater bargaining power when negotiating licence fees and, regarding sales of patented products, may be able to capitalize on their goodwill and sales forces to a greater extent than smaller undertakings. However, failure to materially affect the aggregated sales value or overall profitability of the business could not, by itself, justify concluding that the benefit of a patent has not been outstanding.

Tax and the Assessment of Benefit

Lord Kitchin held that, in assessing the benefit Unilever received from the Shanks Patents, it was not appropriate to take into account the amount of tax that Unilever had to pay and to deem revenues that had to be paid in tax not to count as a benefit. When calculating how much compensation should be paid to an employee, first the benefit must be quantified and then how much compensation would secure for the employee a fair share of it must be decided. Employees must account for tax due on their shares and employers for tax due on the balances.

The Time Value of Money

Lord Kitchin could see no reason why the time value of money cannot be a benefit derived from a patent within the meaning of section 41(1), noting that Unilever has had the benefit of the amounts derived from the Shanks Patents ever since they were paid. He observed that the Comptroller cannot award interest, but may take into account the effect of inflation in assessing the benefit and a fair share of it. Assuming that Professor Shanks' appeal was otherwise successful, Lord Kitchin confirmed that his compensation award should reflect the detrimental effect of time on the value of money.

Was the Benefit Outstanding and Did the Hearing Officer Make an Error in Principle in Assessing the Benefit?

The Supreme Court considered the original hearing officer's assessment of the benefit of the Shanks Patents to Unilever. This assessment had looked at the benefit in various ways, including in the context of Unilever's overall profits and turnover; in relation to patents in general; in the context of Unilever's licensing activities; in view of Unilever's broader patent activities; and in comparison with the benefits generated by Unilever's other activities. The hearing officer concluded that, while the benefit derived from the Shanks Patents was substantial and significant and did "stand out"

when compared to the benefit derived from other Unilever patents, Unilever makes much greater profits on other inventions and it was not suggested that the Shanks Patents were critical to Unilever's success. Considering the size and nature of Unilever's business, the hearing officer decided that the benefit obtained by Unilever from the Shanks Patents was not outstanding.

Lord Kitchin observed that a significant part of the original hearing officer's argument was that Unilever generated enormous income and profits from the manufacture and sale of many different products (e.g. ice cream, deodorants, etc.) that were protected by patents and such income and profits were much larger than the benefits that Unilever received from the Shanks Patents. The hearing officer believed this to be very relevant, as he saw it as indicating the benefits produced by very successful products and the sorts of amounts that could be considered of great benefit to Unilever.

Lord Kitchin disagreed. He found that the hearing officer was wrong to take UCRL's undertaking to be the whole of the Unilever group and also that the focus upon Unilever's overall turnover and profits was misdirected. Lord Kitchin held that the size and success of Unilever's whole business did not play any material part in obtaining the benefit that Unilever derived from the Shanks Patents, which was created from licensing or selling its patent rights, not by using its manufacturing capacity, sales and distribution facilities or goodwill. Further, he could not see a justification for simply comparing the amounts derived by Unilever from the Shanks Patents against the size of Unilever's turnover and overall profitability in products such as ice cream and deodorants, but this comprised a significant part of the hearing officer's assessment. Lord Kitchin concluded that the hearing officer was wrong in principle.

Professor Shanks' invention was a new product area for Unilever, but was not pushed or seen as a key technology and was one in which Unilever made only a moderate investment. Unilever patented and maintained a patent portfolio and spent significant effort and skill in licensing negotiations, but it enjoyed large rewards, generated at no significant risk, which reflected a very high rate of return and stood out when compared with the benefit Unilever received from other patents. The rewards could not be attributed to the use of Unilever's wider business assets or infrastructure, or any bargaining power that Unilever could use due to its size. Ultimately, Lord Kitchin concluded that the benefit derived by Unilever from the Shanks Patents was outstanding within the meaning of section 40 of the 1977 Act.

Fair Share

Lord Kitchin agreed with the hearing officer that a 5% share of the benefit derived by Unilever from the Shanks Patents was fair when calculating appropriate compensation for Professor Shanks. He applied an uplift to the 5% share of the £24 million to reflect the impact of time on the value of money and concluded that an amount of £2 million should be paid to Professor Shanks.

Comment

Historically, cases where employee inventors have been awarded compensation under section 41 of the 1977 Act have been rare in the UK. Although this case may encourage employee inventors to seek awards of compensation if they develop important and beneficial inventions the rights in which are owned by their employers, it will be interesting to see whether, in practice, this case leads to an increase in instances where employee compensation is awarded. The facts and context of each individual case will be significant when determining whether employee inventions have been of "outstanding benefit" to employers (what might be considered to be an outstanding benefit to one employer might be considered less significant for another, depending on the circumstances).