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INVENTING EMPLOYEE WINS £2 MILLION COMPENSATION FOR OUTSTANDING BENEFIT OF PATENTS IN UK SUPREME COURT

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The UK Supreme Court has awarded an employee (Mr Shanks), whose inventions led to patents that were of 'outstanding benefit' to his employer (Unilever), compensation of £2 million as a 'fair share' of that benefit.

The basis for Mr Shanks' claim was the UK Patents Act, s.40(1) (in the form prior to its amendment in 2005), which stated:

"Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that the employee has made an invention belonging to the employer for which a patent has been granted, 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 that by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer, the court or the comptroller may award him such compensation of an amount determined under section 41 below."

At first instance, the Hearing Officer had taken a multifactorial approach to the assessment of s.40(1), noting that the benefit provided by the Shanks patents was a substantial and significant one in money terms - the sort of sum that Unilever would, on the evidence, worry about, and 'stand out' in comparison to the benefit from other patents to Unilever. Nevertheless, taking account of the size and nature of Unilever's business, including for example that Unilever made profits at an order of magnitude greater on other inventions, the Hearing Officer concluded that the benefit provided by the Shanks patents fell short of being outstanding. On this conclusion, the Patents Court and Court of Appeal dismissed Mr Shanks' appeals.

The Supreme Court, however, concluded that the Hearing Officer had erred by focusing,

in the end, upon the overall turnover and profits generated by Unilever and comparing this with the benefit derived from the Shanks patents alone. Lord Kitchin reasoned, for example, that only a proportion of the sale price of any Unilever product could be attributed to any patent protection, and Unilever's attempts to assess the value of its other patents in this respect had failed. On the other hand, Unilever's income from the licensing and sale of the Shanks patents had entailed only modest costs and insignificant risk.

On a key issue on the law - the meaning of "employer" and "employer's undertaking" - and the consequences for the meaning of "benefit" and "outstanding benefit", the Supreme Court took a pragmatic approach. Mr Shanks' 'employer' was clearly the Unilever group company Unilever UK Central Resources Limited ("CRL"), a subsidiary of Unilever plc which at the relevant time employed all of the Unilever group's UK-based research. CRL was not a trading company. It assigned its rights in the Shanks patents to other Unilever group entities for £100. The subsequent income derived by the Unilever group from the Shanks patents vested in Unilever group companies other than CRL. In this circumstance, the Supreme Court considered that the 'benefit' and the question of whether such benefit was 'outstanding' should be assessed by reference to the wider Unilever group, which was deemed to be the "employer's undertaking".

Mr Shanks therefore succeeded in his claim for compensation.

Drawing upon the factual findings made by the Hearing Officer, the Supreme Court then proceeded to make the rulings necessary to dispose of the case. In particular, in the assessment of the level of compensation to be awarded to Mr Shanks, a 'fair share' as required under the Patents Act s.41, the Supreme Court adopted the Hearing Officer's conclusion that Unilever's total earnings from the Shanks patents were approximately £24 million and a fair share of this benefit was 5% (not 3%, which the Patents Court had concluded).

Further, and contrary to conclusions reached in the Patents Court and some of the Court of Appeal's reasoning, the sums Unilever had received as 'benefit' should not be discounted to reflect the payment of corporation tax. An adjustment should also be made to reflect the time value of money - an average annual inflation rate of 2.8% therefore being applied to the 5% of £24 million.

This meant that the award to Mr Shanks of a 'fair share' of the benefit accruing to Unilever, including CRL, was for £2 million.

What does the Supreme Court's judgment mean

for companies employing inventors?

The Supreme Court's judgment makes clear that a straight comparison between, on the one hand, the benefit in financial terms derived by the employer (and its group companies) from a patent, and on the other hand, the turnover of the company or the income stream on other products protected by inventions, will not provide a simple answer to a question of whether an employee inventor is entitled to compensation under the Patents Act. The 'too big to pay' defence as such does not exist.

A more nuanced approach is needed when considering whether there has been outstanding benefit, for example taking account, by way of comparison, of the benefit obtained in respect of other patents and (since 1 January 2005) inventions more generally (which may include patents in jurisdictions beyond the UK).

The 5% royalty rate upheld by the Supreme Court in respect of patents to a platform technology provides a starting benchmark. However, it should not be confused with a 5% royalty on a marketed product. CRL's 'benefit' was the value of the royalties paid in respect of - and the assignment value of - the Shanks patents, and Mr Shanks' compensation was for 5% of that royalty. The circumstances which led to the Shanks patents having 'outstanding benefit' to the wider Unilever business included the nature of the invention in the context of Unilever's core business, and the fact that all but one of the licences were entered into following initial contact made by the subsequent licensee.

For the overwhelming majority of patents, inventors and employers of inventors, the Supreme Court's judgment in Shanks v Unilever will not represent a change to the status quo in the UK. In the occasional case, it may make a difference. However, since the Supreme Court's guidance indicates that the statutory compensation regime will be engaged in 'stand out' cases only, proactive employer engagement with key inventors - for example appropriate recognition and sensitive reward for technical advancements, enabling a positive relationship to be maintained - may avoid the statutory regime ever being invoked.

The Supreme Court's judgment in Shanks v Unilever plc [2019] UKSC 45 (23 October 2019) is available here.

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