Shanks v Unilever Plc & Others

This recent decision of the UK High Court addresses the issue of employee inventions.

When an employee is employed to invent, any financial benefit derived from inventions created in their normal course of duties shall belong to their employer. However, Section 40 of the UK Patents Act, 1977 provides that if the patent or the invention (or the combination of both) is of outstanding benefit to the employer, the employee is entitled to compensation.

The amount of compensation - or whether or not it is due at all - can be a contentious matter, as is evidenced by this case.

Professor Ian Shanks vs. Unilever is the latest case to be decided on this issue, and revolves around an invention which led to a patent for an invention which found utility in diabetes blood testing kits.

The Court held that the benefit to Professor Shanks' employer was not outstanding and that he was not entitled to any compensation. This case continues to set the bar high for what could be considered an outstanding benefit, and clarifies the considerations and factors that need to be addressed when determining if compensation is due, and at what rate.

Background

Professor Shanks appealed against a previous decision which dismissed his claim against Unilever for employee compensation for European Patent (UK) 0 170 375 (EP '375) and related patents under section 40(1) of the UK Patents Act 1977, which covers compensation for employee inventions. The hearing officer had previously concluded that:

- (i) the benefit to Unilever from the patents was £24.5m
- (ii) that this benefit was not outstanding, and
- (iii) if it were, a fair share of the benefit for Professor Shanks would be 5%.

Unsurprisingly, Professor Shanks felt that the benefit and fair share should be higher, and Unilever thought they should be lower.

Professor Shanks was employed by Unilever UK Central Resources Ltd (CRL) - which was a subsidiary of Unilever that employed all of their UK-based research staff - between 5 May 1982 and 3 October 1986. As such, inventions created by Professor Shanks belonged to CRL, and CRL assigned the rights in the invention to Unilever plc for a nominal sum of £100. Professor Shanks signed two confirmatory assignments, for which he received a nominal $1 each. The application for EP '375 was filed on 12 June 1985 with Professor Shanks as well as two others named as inventors, and the application claimed priority from two UK patent applications of which Professor Shanks was the sole inventor. EP '375 was granted on 16 May 1990 and equivalent patents for this invention were also obtained in Australia, Canada, Japan and the USA. All of these patents have now expired.

Between 1992 and 2001, most of the companies operating in the same field paid for non-exclusive licences for the patents, and Professor Shanks was not greatly involved in the licensing, development or exploitation of the technology. In 1994, Unipath, a subsidiary of Unilever, took over the bulk of Unilever's medical diagnostics business, which was sold to Inverness Medical Inventions in 2001.

Decision

During the appeal to the Court, it was contended by Professor Shanks that the patents were of outstanding benefit to Unilever, and that the hearing officer's conclusion as to a fair share was incorrect. From 1996 to 2004, Unilever received license fee payments, and in 2001 they received the part of the purchase price of Unipath that was attributable to Professor Shanks' patents. However, Professor Shanks commenced his claim in 2006 which took six years to reach a hearing. During this time Unilever was able to use the money attributable to the patents and Professor Shanks believed this use was of an economic benefit to the company. He called this the "time value" of money. Professor Shanks believed a figure that properly took into account the economic benefit during this time should be higher than £24.5 million, and therefore that the hearing officer did not properly consider the time value of money.

It was the opinion of the Judge, however, that the license fees and the part of the purchase price of Unipath attributable to the patents were the only benefits directly derived from the patents, and that the time value of money is not a benefit derived from the patents but rather a *benefit derived from the benefits of the patents*. If it were otherwise then it would be possible for the benefit to increase as a result of the employee delaying his claim. It would also mean that the time value of the benefit has no temporal end, for example if the employer were to invest the money in its own business and get a better rate of return than the employee could otherwise get.

Unilever also appealed the hearing officer's decision, claiming that the figure of £24.5 million should be reduced to reflect (i) tax paid by Unilever, (ii) research and development costs, and (iii) a greater percentage of the licensing income being attributable to other patents. The Judge agreed with Unilever that the benefit derived from the patents is the benefit net of tax, but agreed with the hearing officer that the costs of filing, prosecuting, maintaining and licensing the patents could be deducted but not the research and development costs. The Judge was also not persuaded to alter the percentage of the licensing income attributable to other patents as determined by the hearing officer.

Due to the large profits Unilever regularly made, Professor Shanks believed that ruling that the benefit was not outstanding amounts to saying that Unilever are too big to pay compensation to their employees. Professor Shanks also argued that he should have received more due to the fact that Unilever licensed or sold the patents, and because there was very little commercial risk and a very high rate of return to Unilever in obtaining this benefit. However, the Judge was satisfied that the hearing officer took into account both the size and nature of Unilever's undertaking in making his judgement as well as additional, relevant, factors. In particular, he ruled that the fact that the employer receives a benefit from the patents in a manner unusual for them and therefore resulting in a higher than usual return (in this case, licensing and selling the patents), is not an indication that the benefit was outstanding.

Finally, regarding a fair share of the benefit, strikingly, the Judge dismissed all of Professor Shanks' arguments while agreeing with Unilever on two accounts. Firstly, the Judge agreed that the hearing officer did not properly consider Unilever's size and financial weight in their ability to license the patents. Specifically, the Judge agreed that a potential reason the licensees were happy to receive modest royalty rates was that Unilever could afford the costs of infringement proceedings. Secondly, the Judge believed that, although Unilever did not put substantial resources at risk, the hearing officer overlooked that the benefits derived from the patents were obtained purely from licenses, something Unilever was able to accomplish due to its size and financial resources. In light of this the Judge concluded that, to take into account their financial influence in obtaining the benefit, a greater share of the benefit should be attributable to Unilever. In view of previous case law, and in disagreement with the hearing officer, the Judge believed that a fair share of the benefit to Professor Shanks would be no more than 3%.

Conclusion

This case confirms the standard of what could be considered an outstanding benefit to an employer, and that the size of the company, the profits they derive from the invention, and the way in which the invention is exploited are relevant factors in this consideration. In addition, this case demonstrates that, even if the benefit of the invention is found to be outstanding, the size and financial resources that the company invest into the patent are to be considered when determining the size of a fair share. In this case, the fair share was determined using the precedent set in *Kelly v GE Healthcare Ltd [2009] EWHC 181*. Not all employee disputes make it this far however and, in practice, these types of disputes are usually settled internally.

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