Employee inventor compensation - guidance from the UK Court of Appeal

The UK Court of Appeal has upheld the decision of the High Court and the UK Intellectual Property Office that an employee of Unilever, Professor Shanks, was not entitled to inventor's compensation

The Court of Appeal dismissed Professor Shanks' further appeal against the UK Intellectual Property Office's (UKIPO) rejection of his multi-million pound claim for inventor's compensation against his former employer, Unilever, in respect of patents which he claimed to be of "outstanding benefit" to Unilever.

Background

For a discussion of the High Court's decision, please see our note from 2014. Professor Shanks had worked as a research engineer at Unilever. The invention, an electrochemical device which had particular application for testing levels of glucose in blood samples and was therefore useful in the treatment of diabetes, did not relate to Unilever's main business and Unilever did not commercialise the technology itself. Instead the related patent was exploited under a licensing arrangement, which generated approximately £24.5m in net benefit from the patents. Professor Shanks sought compensation from Unilever under section 40(1) of the UK Patents Act 1977.

At the UKIPO hearing, the Hearing Officer found that the benefit obtained by Unilever from the patents was not "outstanding", instead it was found to be useful but not vital. However, *if* the benefit had been found to be outstanding, Professor Shanks' fair share by way of compensation would have been 5 per cent of the benefit.

Professor Shanks appealed the UKIPO decision to the High Court. Arnold J dismissed the appeal, making further findings against the appellant, namely: tax should have been taken into account when calculating the benefit obtained from the patents; and, regarding what would be the appropriate fair share for the inventor *if* the benefit had been found to be outstanding, Arnold J stated that it should be no more than 3 per cent, in line with the case of *Kelly and Chiu v GE Healthcare Ltd* [2009] EWHC 181, where the invention in question had helped the employer avoid a crisis in its business and transformed the fortunes of the company. Professor Shanks appealed again.

The Court of Appeal decision

Professor Shanks repeated the point that, given the size of Unilever (annual turnover over $50 billion), no inventor's invention could ever be "outstanding" – the so-called "too big to pay" argument. Professor Shanks submitted that the Hearing Officer had incorrectly applied the too big to pay principle, using it to trump all other considerations.

Patten LJ accepted that "outstanding benefit" cannot be determined by just comparing the income generated by the patent with overall turnover of the employer – in the case of Unilever, that approach would exclude most patents.

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Patten LJ held that the Hearing Officer *had* actually correctly performed this necessary multi-factorial assessment in evaluating the merits of both sides – he did not decide the case purely on the basis that Unilever was "too big to pay". However, even though "outstanding" is a relative concept, which needs to be measured against a number of factors, a straightforward profitability comparison might well be correctly used for making such a determination regarding a smaller undertaking, where the figures speak for themselves.

Briggs LJ summed this up nicely, stating that whilst it may be going too far to say that Unilever was simply "too big to pay", there is no escaping the fact that Professor Shanks might well have succeeded if he had worked for a smaller undertaking than Unilever.

With respect to the "time value of money"', i.e. the argument that the amount of compensation should also take account of the fact that Unilever had had the revenue for quite some time, Patten LJ confirmed that *it is the opening balance that counts* – the financial benefit of Unilever which is to be considered here is limited to direct receipts of from the exploitation of the patent rights, and does not include the fact that Unilever may have had the benefit of those receipts for some time before any compensation award under section 41(1). Briggs LJ and Sales LJ had a slightly different view, and indicated that there may well be cases where the time value of money, or the "change in the real (rather than nominal) value of money over time" as Briggs LJ phrased it, *will* need to be recognised, e.g. in a situation where the income stream from the invention accrues over a long period of time, and needs to be compared with the turnover and profitability of the employer, it may be necessary to adjust one or the other by reference to the change in the value of money over time if the two are not, or cannot be, compared at the same points in time. The basis for this though, said Briggs LJ, is simply to ensure that like is compared with like.

Regarding the issue of tax as related to identifying the amount of the financial benefit to Unilever, Patten LJ held that the £24.5 m should *not be reduced* to take account of corporation tax (an argument raised by Unilever), since, like the time value of money received, corporation tax is a *consequence* of the benefit rather than a part of it.

The appeal was dismissed in relation to outstanding benefit – the view of the Court of Appeal was that the UKIPO Hearing Officer *had* correctly performed the necessary multi-factorial assessment in ascertaining whether the benefit was outstanding. It should be noted that the Court expressed no view about what should have constituted a "fair share".

This case has confirmed that whilst in deciding whether the benefit from an employee's invention is "outstanding", the size of the employer's undertaking should not be the sole consideration and a multi-factorial approach needs to be followed, such an approach might correctly be modified to some extent where the employer is a much smaller undertaking than Unilever. In such a situation, a simple profitability comparison might provide the answer. At the end of the day, the message seems to be that a UK employee inventor working for a small business stands a better chance of succeeding in a section 41(1) compensation case.

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