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Shanks a million (or two)

Shanks v Unilever [2019] UKSC 45

On 23 October 2019, the Supreme Court handed down its landmark decision in Shanks v Unilever awarding Professor Shanks £2 million compensation for his contribution to patents which were held to be of outstanding benefit to his employer, pursuant to section 40(1) of the Patents Act 1977 (the "UKPA").

The decision brings to a close 13 years of litigation between Professor Shanks and Unilever and provides the first Supreme Court guidance on the rarely litigated question of what constitutes "outstanding benefit" under the UKPA. In this article we consider the implications of this decision for inventor-employees and their employers.

The background

Professor Shanks was employed by Unilever UK Central Resources Ltd ("CRL"), a wholly owned subsidiary of Unilever PLC, from 5 May 1982 to 3 October 1986. Both parties agreed that he was employed to invent. During the course of his employment, Professor Shanks invented blood sugar testing devices. The inventions were assigned to Unilever PLC, and resulted in a number of patents, referred to in the judgment as the "Shanks patents". The Unilever group did not exploit the inventions, but did licence the Shanks patents to third parties. It was found that Unilever's net benefit from the Shanks patents was £24 million.

Professor Shanks first applied for s40(1) compensation in 2006. His application was rejected by the UK Intellectual Property Office ("UKIPO") following a hearing in 2012. That decision was subsequently upheld by the High Court in 2014, and by the Court of Appeal in 2017. We discussed the High Court and Court of Appeal decisions in earlier notes.

The Supreme Court decision

The upshot of the judgment was that the Shanks patents had indeed brought outstanding benefit to Unilever to the tune of £24 million, and that Professor Shanks was entitled to a fair share of that outstanding benefit. The court adopted the hearing officer's calculation of 5%, but said that sum should be adjusted upwards to take into account the "*deleterious effect on the real value of money of the substantial time between Unilever's receipt of the licence fees and other moneys and its making of any payment of compensation.*" The court further ruled that Professor Shanks should be liable to pay tax on any compensation received.

Outstanding benefit

Of particular interest is the Supreme Court's consideration of what would constitute "*outstanding benefit*" for the purposes of section 40(1) UKPA, signalling that a more nuanced and contextual approach should be adopted.

The court held that Professor Shanks' employer was his actual employer, CRL, and not the wider Unilever group. CRL's "*undertaking*" for the purpose of section 40 of the UKPA "*was the business of generating inventions and providing those inventions and the patents which protected them to Unilever for use in connection with its business.*" In these circumstances, in order to assess whether one such benefit actually is outstanding, "*the inquiry ... must be the extent of the benefit of that patent to the group and how that compares with the benefits derived by the group from other patents for inventions arising from the research carried out by that company.*"

Accordingly, it was not correct to assess the benefit merely by looking at the benefit the Shanks patents had conferred on CRL (a nominal £100 assignment fee paid by Unilever PLC to CRL for rights in the Shanks patents). Nor was it correct to compare the benefit brought by the Shanks patents with turnover and profits attributable to products such as "*ice cream, spreads and deodorants*" which were protected by patents, because "*only a proportion of the sale price of any product could be attributed to any patent protection…*" Any such comparison is not like for like.

It was also not correct to compare the revenue attributable to the Shanks patents to the overall revenue of the Unilever group, even if there was a huge disparity in scale. To do so would inevitably mean that some companies were "too big to pay", a proposition which had been correctly seen as unacceptable by the UKIPO hearing officer, but which for some reason he then followed anyway.

The court further considered if Unilever had leveraged its size and market position to generate favourable licensing deals, and found it had not. Whilst Unilever had invested some effort into negotiating licences on the Shanks patents, most of the licensees had approached Unilever to request licences.

For these reasons, the court found that the hearing officer's assessment that there had been no outstanding benefit was wrong in principle and should be set aside.

The facts that the Shanks patents had produced a very high rate of return, that Unilever had made a very small effort to commercialise the inventions, that Unilever's licensing efforts were serious but not exceptional and that it had generated benefit from them at no significant risk all point to the conclusion that the Shanks patents were of an outstanding benefit to CRL having regard to the size and nature of its undertaking.

Practical implications for employers and their inventors

The more nuanced approach to judging outstanding benefit which has been introduced by *Shanks* should have a liberating effect from the perspective of employee inventors – additional compensation is no longer beyond the realms of imagination. The implication for employers is one of increased uncertainty in the area of employee compensation – it's more likely that they might have to pay out for exceptional inventions.

Companies will struggle to simply assert that they are too big to pay. It is no longer enough to rely on the scale of the benefit resulting from the patent or invention (such as £24.3 million) being dwarfed by a large company's turnover and profits. The game has changed considerably, and has moved away from a review of the company's overall profitability – that approach is too simplistic - and has been replaced by a contextual analysis of the benefit.

On a practical level it is entirely foreseeable that an increased number of employee inventors may well now reconsider their position, with the result being an increase in the number of compensation claims being brought under the UKPA. That said, as Professor Shanks can attest, litigation is risky and expensive, which may deter applicants.

It is most definitely the case that the decision in *Shanks* has in a sense levelled the playing field which had been rather bumpy due to the dearth of cases generally in this area and the rather one-sided nature of earlier court decisions, where in some ways the message to an employee claimant was that their situation had to "be like Kelly[1], or bust". To "be like Kelly", the benefit of the employee-devised invention had to more-or-less be transformative for the employer – an enormously high threshold.

Employers may wish to reconsider their in-house incentive programmes (such as "rewards to inventor schemes" and the like), either introducing such schemes into the company's working practices if they do not exist currently, or revising the financial terms of existing schemes. This may assist early settlement of compensation claims for the majority of employee inventors, although it cannot shield a company from separate additional compensation claims being made under the UKPA since it is not possible to contract-out of s40(1) of the UKPA.

[1] *Kelly and Chiu v GE Healthcare Ltd* [2009] EWHC 181 (Pat)

Have the floodgates now been well and truly opened? Will the word “Shanks” itself become a byword for a quick route to a comfortable retirement for lucky inventors? It would seem that the answer to these questions is no, and this is reached from simply looking again at *Shanks* itself – even under this new model for assessing outstanding benefit, proving it still involves overcoming some pretty steep hurdles, in the manner that Professor Shanks did.

It remains to be seen whether the future inventor compensation landscape in the UK, where successful claims have been rare, will gradually begin to look like that of France, for example, where although the sums awarded are generally at a lower level, compensation to inventors is fairly routine. It seems unlikely to us.

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