Shanks v Unilever – Supreme Court Concludes an "Outstanding" Legal Saga on Employee Inventions

Originally brought to the UKIPO in 2006, Professor Shanks was unsuccessful in his initial case before the hearing officer in 2013 (BL O/259/13). The UKIPO hearing officer decided that while the Shanks patents were clearly of significant benefit, they fell short of meeting the required standard of "*outstanding*". Professor Shanks was also unsuccessful at subsequent appeals in the High Court ([2014] EWHC 1647 (Pat)) and the Court of Appeal ([2017] EWCA Civ 2). However, the Supreme Court unanimously overturned the decisions of the lower courts, awarding Professor Shanks £2 million as a share of Unilever's benefit, and importantly provided some much-needed guidance as to how this little-used part of UK patent law should be interpreted.

We consider here the reasoning behind the decision, how the Supreme Court considered the issue of what is "*outstanding*" and the impact this decision might have on other businesses who benefit financially from their patents.

Background

Professor Shanks was employed by Unilever UK Central Resources Ltd ("CRL") from 5 May 1982 to 3 October 1986, primarily developing biosensors for process engineering, and it is agreed that as part of his role he was expected to invent. During the course of his employment, Professor Shanks built a device (albeit at home), designed to measure glucose concentrations in blood, serum or urine.

It is not disputed that the rights to this invention belonged to CRL through his employment, and accordingly, the Shanks patents which resulted from the glucose monitoring device were subsequently filed in the name of CRL, and later assigned to Unilever, as per standard procedure within the Unilever group.

Unilever were not interested in exploiting the patents themselves. Instead, they profited largely from non exclusive licenses of the Shanks patents, which were then subsequently sold to a third party. The UKIPO Hearing Officer found that the net benefit to Unilever of the Shanks patents amounted to ~£24 million.

Legal framework

The Shanks v Unilever case centred about Section 40(1) PA '77, which recites as follows:

"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." (emphasis added)*

Prior to the present judgment, only one major compensation claim has succeeded under S40(1) PA '77 (*Kelly and Chiu v GE Healthcare*, [2009] EWHC 181 (Pat)). The *Kelly* case related to a patented invention which was very successful, and without the patents, the patent owner (Amersham, later bought by GE), would have been in a critical situation. Floyd J in *Kelly* summarised his construction of the term "*outstanding*" as follows:

"'Outstanding' means 'something special' or 'out of the ordinary' and more than 'substantial', 'significant' or 'good'. The benefit must be something more than one word would normally expect to arise from the duties for which the employee is paid."

The *Kelly* decision certainly suggested that a patented invention will only be of "*outstanding benefit*" in extraordinary circumstances.

The lower Courts in the *Shanks* case applied the *Kelly* precedent but found that the benefit to Unilever fell short of "*outstanding*". The central arguments put forward by Unilever were (and continued to be throughout the trial) that:

- the nature of Unilever's significant and diverse business portfolio meant that their annual turnover was in the £billions and included multiple product lines which generated hundreds of £millions per year; and
- section 40(1) PA'77 explicitly states that the size and nature of the employer's undertaking must be taken into account when assessing whether a patented invention is of "*outstanding benefit*": in light of this, a set of patents which generated ~£24 million cannot be seen as "*outstanding*" in the manner described by Floyd J in *Kelly*.

Key issues considered by the Supreme Court

While the question under appeal was ultimately whether Professor Shanks should receive compensation (and if so, how much compensation), the facts of the case and the preceding judgments meant that the Supreme Court justices gave considerable thought to several issues, including:

- Who is the relevant employer in this case?
- Can an employer be "*too big to pay*"?
- Can you account for the "*time value of money*"?

Relevant employer

In considering whether the invention was of outstanding benefit in relation to the "employer's undertaking", it was key to the case to establish whether the employer's undertaking should be that of Unilever group as a whole (having a multi-billion pound turnover) or that of CRL, which was not a trading company. Professor Shanks had put forward the argument that the employer under question should be CRL, with whom Professor Shanks had an employment contract. This argument was rejected by the hearing officer (and was affirmed by the lower courts), who stated that the only logical approach was to consider the Unilever business as a whole. An important reason behind this decision was that it was the Unilever group that ultimately received the benefit from the Shanks patents, and CRL played no significant part in their exploitation.

Kitchin LJ disagreed with both Professor Shanks' proposal as well as the Hearing Officer's opinion, and stated that the assessment of the employer's undertaking in this particular scenario must lie in between the two extremes presented by the parties. In paragraph 48 of the judgment, it is stated:

"Where, as here, a group company operates a research facility for the benefit of the whole group and the work results in patents which are assigned to other group members for their benefit, ***the focus of the inquiry into whether any one of those patents is of outstanding benefit to the company 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. This gives practical and commercial effect to the language of section 41 and involves a comparison of like with like.*** *Furthermore, it is, in my opinion, the approach which sits most comfortably with the next aspect of the analysis, namely the relevance of the size and nature of the employer's undertaking." (emphasis added)*

This suggests that the employer's undertaking does not have to be an entire business, and can in fact take into account multiple related business units or companies depending on the situation at hand. In this particular case, Kitchin LJ singled out the fact that CRL was Professor Shanks' legal employer and the benefit, although derived by the whole Unilever group, must be viewed in the context of the CRL-Unilever relationship.

"Too big to pay"

Professor Shanks had argued at the Court of Appeal that – if the overriding issue was the fact that Unilever's turnover dwarfed the benefit from the Shanks patents – Unilever was in effect "*too big to pay*". While initially not successful, Patten LJ at the Court of Appeal did have sympathy with the idea that no company should be exempt from paying compensation purely because they were large, and this idea seemed to gain further traction with Kitchin LJ in the Supreme Court decision.

Kitchin LJ stated at paragraph 54:

"On the other hand, I think a tribunal should be very cautious before accepting a submission that a patent has not been of outstanding benefit to an employer simply because it has had no significant impact on its overall profitability or the value of all of its sales. Those profits and sales may have been generated by a range of different products which have nothing to do with the technology the subject of the patent; the parts of the business responsible for them may not have contributed to any commercial success of the patented invention; and they may be a very poor guide to whether the benefit the employer has derived from the patent is out of the ordinary. Indeed, ***I find it very hard to see how a failure materially to affect the aggregated sales value or overall profitability of the business could, in and of itself, justify a finding that the benefit of a patent has not been outstanding."*** *(emphasis added)*

This clearly indicated that comparison with overall turnover cannot be the single reason for dismissing any amount of benefit as "*outstanding*". A key aspect from this case, and as alluded to by Kitchin LJ's remarks, is that Unilever's activities as a whole were diverse yet completely unrelated to the Shanks patents. Ultimately, it was found that assessing the value of the Shanks patents in the context of the turnover from e.g. ice cream was not useful or relevant. Rather, a like-for-like comparison should be carried out, looking at the benefit derived from similar business activities.

The "*time value of money*"

Professor Shanks also wanted any compensation paid to take into account the "*time value of money*". He pointed out that Unilever received the revenue from licensing the Shank patents a long time before he would receive any compensation due, and that Unilever would have benefitted from that revenue in the interim.

Again, while the lower courts all disagreed, Kitchin LJ decided that there is essentially no reason to ignore the fact that time has a detrimental impact on the real value of money. Furthermore, he saw no burden in calculating an appropriate uplift of any awarded amount to take into account e.g. inflation.

Was the benefit "*outstanding*"?

Kitchin LJ, along with the other sitting judges, agreed that the benefit from the Shanks patents was "outstanding". Even before the Hearing Officer, the £24m benefit for Unilever had been considered objectively a significant value. Such income from a licensing position, achieved with minimal effort, was acknowledged to be unusual for the Unilever group. Whilst this was not enough before the lower courts, Kitchin LJ was of the opinion that the Hearing Officer focussed too much on the overall turnover and profits generated by Unilever as a whole in reaching the original decision. A key corollary to this finding is outlined in paragraph 81:

"Thirdly, it cannot be said that the ***size and success of Unilever's business as a whole played any material part in securing the benefit it has enjoyed from the Shanks patents.*** *That benefit was generated by licensing or selling its patent rights, not by harnessing its manufacturing capacity, its sales and distribution facilities or its goodwill. The licence fees, which constituted the main part of the benefit, were paid by licensees who, with one exception, approached Unilever.* ***It is true that Unilever's licensing personnel negotiated those licences with skill and serious effort but its costs of doing so were modest and taken into account, and the hearing officer made no finding to the effect that the royalty rates were boosted by the application of Unilever's financial muscle or the threat of legal proceedings.*** *These were matters he failed properly to take into account." (emphasis added)*

Put simply, the size of the Unilever group had no bearing on the benefit from the Shanks patents. This went against Unilever's main argument, and Professor Shanks necessarily succeeded as a result.

Kitchin LJ did agree on a compensation amount of 5% of £24 million, which was initially suggested by the UKIPO Hearing Officer in 2013. Taking into account the "*time value of money*", he adjusted the amount for inflation to arrive at the awarded amount of £2 million.

What this means for employers and future compensation claims

It is worth noting that the facts of the *Shanks* case were quite unique. While it is easy to reduce the dispute in the *Shanks* case to a battle between a "*David*" and a "*Goliath*", it must be remembered that this case related to a situation where an individual had conceived and designed at home – without any significant external input (bar his daughter's home chemistry kit) – the technology behind glucose monitoring that was central to the development of the entire glucose monitoring field. For Unilever, the Shanks patents were used to generate revenue to an extent which was unparalleled when compared to its other licensing activities. It became apparent in the course of proceedings that Unilever had borne very little risk and indeed little effort had been needed to secure the licenses: the majority of licensees had approached Unilever, rather than vice versa. Put another way, Unilever was unable to effectively argue against the fact that they had gained £24m for next to nothing beyond the costs of prosecuting the patents themselves.

In the end, all of the above went against Unilever in the Supreme Court, because they could not deny that £24 million was a significant amount, unprecedented in the context of other inventions made by CRL, and they could not show that the size of their business took anything away from the outstanding nature of the benefit derived from the patents.

It is difficult to conceive of modern businesses that face a situation that is similar to that of Unilever. It is relatively uncommon for innovative companies to own patents relating to technologies which are unrelated to their main business interest, let alone that they would be exploiting such patents. Whilst some companies do rely on significant revenues from licensing, such companies would likely be able to argue that they contributed more to the exploitation of a given patent.

Therefore, while the *Shanks* decision is clear precedent that employee compensation may be awarded in cases involving large companies, and that a huge turnover for the employer is not enough to deny such an award, companies should not be concerned about a flurry of claims being made by employees. The unique facts of the *Shanks* case corroborate the existing case law that the bar to demonstrate an "*outstanding*" benefit for any successful claim for employee compensation remains high. It is still the case that the employee must demonstrate that the benefit from the patents to their employer must be shown in some way to be extraordinary. For example, it is unlikely that an employee invention that became one of a number of commercially successful projects would be deemed "*outstanding*".

The *Shanks* decision does, however, clarify that the outstanding benefit derived from any particular patented invention simply needs to be shown to be significant in the context of other, similar business activities – and not just reduced to a comparison of amounts or represented as a percentage of business turnover.

Although we expect these employee compensation cases to remain few and far between, there are steps practical companies can take to avoid surprise employee compensation claims in light of the Shanks decision. For instance, companies could consider:

1. Introducing a process for monitoring revenues generated by licensing portfolios of patents
2. Recording costs incurred in generating revenue from patents, such as expenses incurred during licensing negotiations
3. Awarding financial prizes to inventors of patented inventions that are of particular benefit to a company; and
4. Considering settling employee compensation claims.

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