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EMPLOYMENT ALERTER

Employee Patent Compensation

SHANKS V UNILEVER PLC & OTHERS

The right of employees to claim Employee Patent Compensation has been greatly overlooked by both employers and their lawyers.

The Patents Court has handed down judgment in Shanks v Unilever plc & others, in which Patrick Green **appeared for Professor Shanks, the successful appellant.**

ISSUE: When an employer has assigned an invention or patent to a connected company, how does this affect the (employee) inventor's right to an award of a fair share of any outstanding benefit, under sections 40 and 41 of the Patents Act 1977?

The key provisions and came into force on 1 June 1978, but the first awards under them were not made until February 2009 – by Floyd J in Kelly v GE Healthcare: £1m and £500,000.

Background

Professor Shanks is claiming an award of up to £40m compensation from Unilever Plc (and other Unilever companies), under sections 40 and 41 of the Patents Act 1977, which provide that an employee inventor is entitled to a fair share of any "outstanding benefit" which his employer derives from his invention[1].

Professor Shanks was employed by Unilever's research company, "CRL". His invention, in the early 1980s, was a capillary fill device which could be used for monitoring blood glucose levels.

The Shanks v Unilever decision is therefore the second important decision in this area this year.

On 13th June 1984, Professor Shanks's invention was assigned to Unilever Plc for £100, with a later confirmatory assignment for another £100. So, CRL (his employer) did not receive an outstanding benefit from this.

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[1] Before the 2004 amendment, the outstanding benefit had to be dervied from the patent. Since the amendment, the benefit may now be derived from the patent or the invention.

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Anti-avoidance

However, section 41(2) is an anti-avoidance provision and applies where the employer assigns (or otherwise transfers or licenses) the patent (or related rights) to a connected party, here Unilever Plc. Section 41(2) provides that the court should look at the benefit which would have been derived from a transaction with an unconnected party, although its wording is a little problematic.

Section 41(2) covers transfers to a connected party and deems the benefit to the employer to be:

> *"the amount which could reasonably be expected to be so derived by the employer if that person had not been connected with him"*

Section 41 provides as follows:

> (1) An award of compensation to an employee under section 40 (1) … above in relation to a patent for an invention shall be such as will secure for the employee a fair share (having regard to all the circumstances) of the benefit which the employer has derived, or may reasonably be expected to derive, from the patent ….
>
> (2) For the purposes of subsection (1) above the amount of any benefit derived or expected to be derived by an employer from the assignment, assignation or grant of –
>
> (a) the property in, or any right in or under, a patent for the invention or an application for such a patent; or
>
> (b) the property or any right in the invention;
>
> **to a person connected with him** shall be taken to be the amount which could reasonably be expected to be so derived by the employer **if that person had not been connected with him**."

The words in bold (emphasis added) were particularly in issue before the Hearing Officer and on appeal in the Patents Court.

Before the Hearing Officer

The context of the appeal was set by the arguments below, before the Intellectual Property Office's Hearing Officer. The Unilever Defendants contended that the literal words of section 41(2) meant that the court should imagine a transaction still with Unilever Plc, but in a world where Unilever Plc was unconnected with its own research company CRL.

Why it mattered

This mattered because:

(a) Professor Shanks's evidence was that Unilever Plc had an antipathy to exploiting the patent for blood glucose monitoring;

(b) Unilever Plc's evidence was that it would only have paid the employer a very small amount of money for the invention;

(c) Professor Shanks's evidence suggested that the benefit from an open market deal with a completely unconnected third party would have been of the order of $800m or more.

Decision of the Patent Office

The Hearing Officer in the Patent Office upheld Unilever's literal construction of section 41(2). He also held that

Appeal in the Patents Court

"Parliament was, perhaps a little clumsily, intending to refer to a notional non-connected counterparty operating in the appropriate market at the appropriate time."

Mann J (at paragraph 42)

Professor Shanks appealed to the Patents Court, where the case came before Mann J.

In reaching his decision on the appeal, Mann J held as follows (at paragraph 38):

What Parliament intended was a hypothetical transaction which is constructed because the actual transaction is affected by a commercial factor which depresses (or which might depress) the price below that which would normally be expected. It would be an odd result to fix that by constructing an alternative transaction which is almost as unreal because it contains factors which would never be allowed to affect the transaction in the real world (except to lead the seller not to enter into it). One has to bear in mind that the hypothetical deal has two sides - a seller as well as a buyer. It would be a very odd hypothetical transaction in which the notional seller is having to sell to an inappropriate buyer vested with qualities which mean that the former would never be able to do a commercially sensible deal with the latter in the real world.

Result

Mann J allowed the appeal, holding that:

(1) Unilever was right about the literal meaning of section 41(2);

(2) the literal meaning would lead to a commercial absurdity;

(3) the provisions in sections 40 and 41of the Patents Act 1977 were not a "spectacularly well-drafted set of provisions as they stand";

(4) the proper construction required the court to consider an open market transaction with an unconnected party.

Impact

The lack of successful cases before the Intellectual Property Office and the Patents Court has historically discouraged employee inventors from bringing section 40 applications for employee patent compensation.

The combination of the *Kelly* and *Shanks* decisions seems likely to change this and larger organisations are beginning to consider how they should address this prospect and what positive steps they could now be taking to manage the issue.

Lawyers advising clients who undertake any significant research and development should be particularly careful to consider whether alerting them to these issues falls within the scope of any retainer and may wish to draw their clients' attention to the issue, in any event.

As noted by Mann J, these provisions are not spectacularly well drafted. Nor are they always easy to apply in practice. This knotty and hitherto neglected area of the law finally seems to be poised for development.

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Recent employment cases

Other employment cases of interest in which members of Henderson Chambers' Employment Practice Group have recently appeared include:

Autoclenz v Belcher
[2009] EWCA Civ 1046 (13 October 2009)
Employee and worker status; whether car valeters were truly self-employed.

St Albans Girls' School & Anor v Neary
[2009] EWCA Civ 1190 (12 November 2009)
Striking out cases in the Employment Tribunal; whether CPR 3.9 applied to an application equivalent to one for relief from sanctions.

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