

Employee Compensation for Innovation

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Overview

- ▶ Common law – before PA 1977
- ▶ Patents Act 1977 (as amended)
- ▶ *Kelly v GE Healthcare Ltd. [2009] EWHC 181 (Pat)*
- ▶ *Shanks v Unilever*
 - IPO: *BL O/259/13*
 - High Court: *[2014] EWHC 1647 (Pat)*
 - Court of Appeal: *[2017] EWCA Civ 2*
- ▶ Conclusions

Position Before Patents Act 1977

Inventions made by an employee in the course of his employment and any resulting patents were **held on trust for the employer**.

Patents Act 1977

s.39.— Right to employees' inventions.

(1) ...an invention made by an employee shall, as between him and his employer, **be taken to belong to his employer ...if—**

(a) it was made in the course of the normal duties of the employee or in the course of duties falling outside his normal duties, but specifically assigned to him, and the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties; or

(b) the invention was made in the course of the duties of the employee and, at the time of making the invention, because of the nature of his duties and the particular responsibilities arising from the nature of his duties he had a special obligation to further the interests of the employer's undertaking.

(2) Any other invention made by an employee shall, as between him and his employer, be taken for those purposes to belong to the employee.

Patents Act 1977

s. 40.— Compensation of employees for certain inventions.

(1) Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that—

(a) the employee has made an invention belonging to the employer for which a patent has been granted,

(b) having regard among other things to the size and nature of the employer's undertaking, the invention¹ or the patent for it (or the combination of both) is of **outstanding benefit** to the employer, and

(c) 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.

1 – January 1, 2005

Patents Act 1977

s.42 Enforceability of contracts relating to employees' inventions

(1) This section applies to any contract (whenever made) relating to inventions made by an employee, being a contract entered into by him—

(a) with the employer (alone or with another); or

(b) with some other person at the request of the employer or in pursuance of the employee's contract of employment.

(2) Any term in a contract to which this section applies which diminishes the employee's rights in inventions of any description made by him after the appointed day and the date of the contract, or in or under patents for those inventions or applications for such patents, shall be unenforceable against him to the extent that it diminishes his rights in an invention of that description so made, or in or under a patent for such an invention or an application for any such patent.

Patents Act 1977

s. 41.— Amount of compensation.

(1) An award of compensation to an employee under [section 40\(1\)](#) ... above 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 any of the following—

- (a) the invention in question¹;
- (b) **the patent for the invention**;
- (c) the assignment, assignation or grant of—
 - (i) the property or any right in the invention, or
 - (ii) the property in, or any right in or under, an application for the patent,to a person connected with the employer.

1 – January 1, 2005

Patents Act 1977

s. 41.— Amount of compensation.

(4) In determining the **fair share** of the benefit to be secured for an employee in respect of [...] an invention which has always belonged to an employer, **the court or the comptroller shall, among other things, take the following matters into account**, that is to say—

- (a) the nature of the employee's duties, his remuneration and the other advantages he derives or has derived from his employment or has derived in relation to the invention under this Act;
- (b) the effort and skill which the employee has devoted to making the invention;
- (c) the effort and skill which any other person has devoted to making the invention jointly with the employee concerned, and the advice and other assistance contributed by any other employee who is not a joint inventor of the invention; and
- (d) the contribution made by the employer to the making, developing and working of the invention by the provision of advice, facilities and other assistance, by the provision of opportunities and by his managerial and commercial skill and activities.

Kelly v GE Healthcare Ltd [2009] EWHC 181 (Pat)

Floyd J noted that during the Passage of the Bill through the House of Lords, Lord Nelson of Stafford is recorded in Hansard as saying that:

“**I have never seen such a collection of vague terms in my life.** What compensation, who is responsible, **what is outstanding benefit**, what value is to be put on this and what on that?”
and

“Who is to be the Solomon who will sort out all these **vaguenesses** at the end of the day and adjudicate on compensation when a claim is made, I hesitate to think.”


Kelly v GE Healthcare Ltd [2009] EWHC 181 (Pat)

Patented Radioactive Imaging Agent – Myoview ®

Floyd J:

‘ 207 I have reached the following conclusions:

- i) The patents have been of **outstanding benefit** to Amersham;
- ii) **It is just** that the employees should receive an award of compensation;
- iii) I have decided that the **benefit of the patents is of the order of £50 million**;
- iv) **A fair share** for the employees is £1 million for Dr Kelly and £500,000 for Dr Chiu.’

 Europäisches Patentamt European Patent Office Office européen des brevets		Publication number: 0 311 352 A1
EUROPEAN PATENT APPLICATION		
Application number: 88309235.5	Int. Cl. A: C07F 9/50 , C07F 9/72 , C07F 13/00 , C07B 59/00 , A61K 49/02	
Date of filing: 04.10.88		
Priority: 06.10.87 GB 8723438	Applicant: AMERSHAM INTERNATIONAL plc Amersham Place Little Chalfont Buckinghamshire HP7 9NA(GB)	
Date of publication of application: 12.04.89 Bulletin 89/15	Inventor: Chiu, Kowk Wai 157 Mary's Mead Hazlemere Buckinghamshire(GB) Inventor: Kelly, James Duncan 29 Highland Road Amersham Buckinghamshire HP7 9AX(GB) Inventor: Latham, Ian Andrew 20 Hope Drive The Park Nottingham(GB) Inventor: Griffiths, David Vaughan 23 Larchwood University of Keele Keele Staffordshire ST5 5BG(GB) Inventor: Edwards, Peter Gerald 47 Llanfair Road Cardiff, CF1 9GB Wales(GB)	
Designated Contracting States: AT BE CH DE ES FR GB IT LI LU NL SE	Representative: Pennant, Pyers et al Stevens, Hewlett & Perkins 5 Quality Court Chancery Lane London, WC2A 1HZ(GB)	
Cationic complexes of technetium-99m.		
The invention concerns cationic complexes of Technetium-99m with bidentate ligands (L), including complexes having the formulae $[Tc(NO)X(L)_2]^+$ and $[Tc(L)_3]^+$, which are of interest as heart imaging agents. The ligands are characterized by having the formula Y_2QZQY_2 , where each Q is phosphorus or arsenic, Z is a 2 or 3 carbon atom linking group, and at least one of the groups Y and Z includes at least one -COC- ether group.		

EP 0 311 352 A1

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Shanks v Unilever (BL O/259/13)


Electrochemical Test Device

Hearing officer (IPO) J Elbro

Hearing dates 26-29 March, 2-5 April and 2 May 2012

‘223 In my view, taking account of the size and nature of Unilever’s business, the benefit [£32 million] provided by the Shanks patents falls short of being outstanding.’

‘245 ...5% would have been an appropriate fair share of the benefit for the Claimant had I held the benefit to be outstanding.’

 Europäisches Patentamt European Patent Office Office européen des brevets		Publication number: 0 170 375 B1
EUROPEAN PATENT SPECIFICATION		
Date of publication of patent specification: 16.05.90 Application number: 85304170.5 Date of filing: 12.06.85	Int. Cl. ⁵ : G 01 N 33/48, G 01 N 33/543	
Devices for use in chemical test procedures.		
Priority: 13.06.84 GB 8415018 13.06.84 GB 8415019 Date of publication of application: 05.02.89 Bulletin 58/05 Publication of the grant of the patent: 16.05.90 Bulletin 90/20 Designated Contracting States: AT BE CH DE FR GB IT LI NL SE References cited: EP-A-0 096 095 EP-A-0 121 385 US-A-4 053 381 US-A-4 137 495 US-A-4 413 407	Proprietor: UNILEVER PLC Unilever House Blackfriars P.O. Box 68 London EC4P 4BQ (GB) Proprietor: UNILEVER NV Burgemeester s' Jacobplein 1 P.O. Box 760 NL-3000 DK Rotterdam (NL) BE CH DE FR IT LI NL SE AT Inventor: Shanks, Ian Alexander 56 The Bury Pavenham Bedford MK43 7TY (GB) Inventor: Smith, Alan Martin 23 The Marsh Carlton Bedford MK43 7JU (GB) Inventor: Nylander, Claes Ivan 8 Colworth Road Sharnbrook Bedford MK44 1ET (GB) Representative: Stancliffe, Terence Christopher et al UNILEVER PLC Patents Division P.O. Box 68 Unilever House London EC4P 4BQ (GB)	
Note: Within nine months from the publication of the mention of the grant of the European patent, any person may give notice to the European Patent Office of opposition to the European patent granted. Notice of opposition shall be filed in a written reasoned statement. It shall not be deemed to have been filed until the opposition fee has been paid. (Art. 99(1) European patent convention).		
Courier Press, Leamington Spa, England.		

EP 0 170 375 B1

Shanks v Unilever (BL O/259/13)

Electrochemical Test Device

Hearing officer (IPO) J Elbro

Hearing dates 26-29 March, 2-5 April and 2 May 2012

Was the benefit outstanding? – para. 198 to 223

‘222. Considering the totality of the evidence, I was left with a clear impression. The benefit provided by the Shanks patents was a substantial and significant one in money terms – the sort of sum Unilever would, on the evidence, worry about (cf. Project Hyacinth). Furthermore, in comparison to the benefit from other patents to Unilever, from the evidence before me it does, in Mr Emanuel’s words “stand out”. But Unilever makes profits at an order of magnitude greater on other inventions – albeit primarily by manufacture and at a much lower rate of return than was provided by the Shanks patents. Further, this is not such a case as *Kelly*, where Floyd J held that without the patents in that case, Amersham would have faced a crisis. There was no suggestion from either party that the Shanks patents were crucial to Unilever’s success. ‘

Shanks v Unilever PLC [2014] EWHC 1647 (Pat)

Appeal to High Court

Arnold J:

‘Was the benefit outstanding?’

(6) The hearing officer’s decision on the issue as to whether the benefit which Unilever obtained from the Shanks Patents was outstanding was a **value judgment** involving a **multi-factorial assessment** and should not be disturbed unless he had made a distinct and material error of principle’.

...
(15) The hearing officer had accordingly **made no error of principle** in concluding that the Shanks Patents were not of outstanding benefit to Unilever’.

Europäisches Patentamt
European Patent Office
Office européen des brevets

Publication number: **0 170 375 B1**

EUROPEAN PATENT SPECIFICATION

Date of publication of patent specification: 16.05.90
Application number: 85304170.5
Date of filing: 12.06.85

Int. Cl.⁵: G 01 N 33/48, G 01 N 33/543

Devices for use in chemical test procedures.

Priority: 13.06.84 GB 8415018
13.06.84 GB 8415019

Date of publication of application: 05.02.89 Bulletin 89/05

Publication of the grant of the patent: 16.05.90 Bulletin 90/20

Designated Contracting States: AT BE CH DE FR GB IT LI NL SE

References cited: EP-A-0 096 095 EP-A-0 121 385 US-A-4 053 381 US-A-4 137 495 US-A-4 413 407

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EP 0 170 375 B1

Note: Within nine months from the publication of the mention of the grant of the European patent, any person may give notice to the European Patent Office of opposition to the European patent granted. Notice of opposition shall be filed in a written reasoned statement. It shall not be deemed to have been filed until the opposition fee has been paid. (Art. 99(1) European patent convention).

Courier Press, Leamington Spa, England.

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

‘The hearing officer’s decision

‘44 we approach the question of outstanding benefit in a purely appellate capacity and not *de novo*. Our sole function is to **review the decision** already made to ensure that it was reached on a correct legal basis. It is only if it can be shown to be based on a **misdirection** as to the relevant statutory test or, for example, on some **misapprehension** as to the material facts that it would be open to this Court to set the Hearing Officer's decision aside and to re-make it.’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

‘The hearing officer’s decision

‘45 We also have to bear in mind that we are dealing with the decision of what amounts to a **specialist tribunal** whose expertise needs to be acknowledged in any consideration of the merits of the decision under appeal. In practice, this means that the Court will show a **real reluctance** but perhaps not the very highest degree of reluctance to disturb the conclusions of the Hearing Officer on matters that are particularly within his expertise **absent a clear and material error of principle**: see *South Cone Inc v Bessant [2002] EWCA Civ 763; [2003] RPC 5* at [28].’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

‘The hearing officer’s decision

‘47...Three grounds are relied on:

- (1) the adoption by the Hearing Officer of the "**Too big to pay**" approach referred to earlier;
- (2) his failure to attach **sufficient weight to the scope of Professor Shanks' contractual duties** and his insight, initiative and inventiveness; and
- (3) his failure to give any or **sufficient weight to the use of the licence fee income** to boost the profit and loss accounts of Unipath Limited so as to enable it to be sold.’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

“Too big to pay”

‘59... As I have already said, s.40(1) was designed, as I read it, to deal with **exceptional cases**.

There must be an outstanding benefit to the employer company and not just generally. Cases like *Kelly* illustrate the sort of circumstances where those conditions will be satisfied.

61 If the correct reading of the decision is that the Hearing Officer **did carry out an analysis of the other factors** which were pressed on him as relevant **but concluded that on balance they did not make the benefits outstanding** then it would not be right in my view for this Court to interfere. The weight to be given to those factors was a **matter of judgment for the Hearing Officer.**’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

“Too big to pay”

‘63 It is **not** part of Professor Shanks' case that the Hearing Officer reached any conclusions unsupported by any evidence or that he failed to deal with some obviously material factual issue. He did not find that the Shanks patents embodied the kind of invention which Mr Green contends for.

64 What I think does matter is that **he properly took all these matters into account** but was **not** persuaded that the benefits which the patents did bring could be described as outstanding when looked at in the context of the **overall performance of the Group**. That seems to me to be what he was required to do under s.40(1) ...In any event, it is a misreading of the decision to suggest that the Hearing Officer reached his conclusion solely on the basis that the income from the patents was a small part of Group income in the relevant years. Ground 1 therefore fails.’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

“The other grounds of appeal”

‘65 I can deal with the other two grounds of appeal quite shortly. The Hearing Officer dealt at length in his decision with how the invention came to be developed and what was Professor Shanks' contribution to it. In terms of his **contractual duties**, the Hearing Officer found that the work lay within Professor Shanks' brief although it was not the main focus of his work. So far as these are relevant to the issue of outstanding benefit, the Hearing Officer was obviously aware of these matters and I think **took them into account**. But, as stated earlier, they have only a limited relevance to the s.40(1) question and are of more obvious importance to a consideration of what a fair share of the benefit would be. I am not satisfied that there is anything in this ground of appeal.’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

“The other grounds of appeal”

‘66 The issue about Unipath was not really pressed although addressed in Mr Green's skeleton argument. **It is obviously not a requirement of s.40 that the patent should save the business** but, if it does, it is obviously likely to be regarded as of outstanding benefit as it was in Kelly. Mr Green's other point is that the **revenues from the Shanks patents** had been used to prop up Unipath's accounts and return it to profitability in readiness for a sale. But the Hearing Officer **took account of this** and the decision of Unilever to use the revenue for the benefit of a particular entity within the Group **does not obviate the need to consider those figures in relation to the Group as a whole.**’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

“Too big to pay”

‘68 I agree that this appeal should be dismissed, for the reasons given by Patten LJ. I do so with some reluctance because this does appear to be a case in which **the sheer size of the employer's undertaking was**, at the end of a careful and balanced analysis by the hearing officer, **the key factor** in his conclusion that the benefit which Unilever derived from Professor Shanks's invention was not “outstanding” within the meaning of that word in section 40(1) of the 1977 Act. It may be going too far to say that Unilever was simply “too big to pay”, but there is no escaping the fact that Professor Shanks **might well have succeeded had his employer had a much smaller undertaking than did Unilever.**’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

“Too big to pay”

‘69 But that seems to me to have been a legitimate consequence of the **express statutory requirement** that the hearing officer should have regard (amongst other things) to the size and nature of the employer's undertaking in deciding whether the benefit to the employer was outstanding. While section 40 does not, and the hearing officer did not, disregard any other relevant matter, the fact that it is the only matter to which Parliament makes express reference in this respect means that it **plainly cannot be disregarded and that, in some circumstances, such as this case, it will prove to be decisive.**’

Shanks v Unilever PLC [2017] EWHC Civ 2

Appeal to Court of Appeal

Patten LJ, Briggs LJ, Sales LJ

“Too big to pay”

‘70 The fact that this factor did, I consider, prove decisive in the hearing officer's analysis by no means leads to the conclusion that he made an error of law. As Patten LJ has demonstrated, the hearing officer carefully took into account a range of competing factors for and against a conclusion that Professor Shanks's invention was of outstanding benefit to Unilever, recognising that no relevant factor could be treated on its own as compelling a particular outcome, without a balancing of all relevant factors. It is frequently the case that the outcome of a multi-factorial balancing exercise of this kind is ultimately determined by a particular factor. Providing that the decision-maker remains within the bounds of rationality, the **weight to be given to each factor is a matter for him.**’

Appeal to Supreme Court - Outstanding

Conclusion : compensation for innovation

s.40 Patents Act 1977 – Compensation for certain inventions:

- Outstanding benefit:
 - multi-factorial assessment
 - value judgment
 - exceptional case

Appeals:

- Limited to a review of the decision and reluctant to interfere unless:
 - Error of principle or misapprehension of material facts.

Choice of Forum:

- Award of compensation can be made by comptroller or the court (s.40(1) PA 1977)

Thank you for listening! Any questions?

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