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Shanks v Unilever – A Fair Share At Last

Arnie Clarke (GJE Intellectual Property) · Wednesday, October 30th, 2019

The Supreme Court handed down its judgment on 23 October 2019, marking the end of a 13-year struggle between the inventor, Prof Ian Shanks, and Unilever for compensation in relation to an invention relating to disposable glucose monitoring equipment.

The judgment of the Supreme Court provides valuable guidance on the matters to be taken into account when assessing the benefit of an invention, and the amount of compensation to be awarded to the inventor. However, it may encourage conglomerates who currently employ inventors in a small subsidiary within the larger group of companies to re-structure so that inventors are directly employed by a larger manufacturing company in the group, so that the "employer's undertaking" is a larger entity and thus a higher threshold is set when assessing whether the invention has provided an "outstanding benefit".

The Invention

Professor Shanks was employed by Central Resources Ltd (CRL) (a part of the Unilever group employing researchers) from May 1982 to October 1986 and was assigned to its Colworth research laboratories in Bedfordshire. His brief was to develop biosensors for use in process control and process engineering.

After visiting Cranfield University in July 1982, Prof Shanks became interested in the possibility of using re-usable or disposable devices incorporating biosensors for diagnostic applications.

From his previous work with LCD devices, which consist of a pair of transparent plates with a small spacing between them, Prof Shanks knew that a drop of liquid placed in contact with the gap would be drawn into the space between the plates. Applying this technique would give a way to introduce a liquid sample into a bio sensing device. Raiding his daughter's microscope kit for slides, and adding Mylar® film and bulldog clips, a prototype was born.

A priority application was filed in 1984, followed by a wider filing programme in 1985. The granted patents were maintained by Unilever until their expiry in 2005. There was no dispute that the patents were owned by Unilever.

Unilever's benefit from the Patents

Unilever received £19.55 million from seven sets of licences under the Shanks patents and about £5 million from sale of the Shanks patents, i.e. total return of £24.55 million.

The First Step – UK Intellectual Property Office (UKIPO)

An application for compensation was launched in the UKIPO in June 2006 and the Hearing Officer delivered his decision in June 2013. The wording of Sections 40 and 41 of the Patents Act[1] leaves three issues to be decided in employee compensation cases, namely:

- what is the "employer's undertaking";
- what constitutes an "outstanding benefit";
- how much is a "fair share" of the benefit which the employer has derived.

Hearing Officer's Decision [BL O/259/13][2]

"employer's undertaking"

Unilever argued that this meant the Unilever group as a whole, because work done by the researchers at CRL was group work undertaken for the benefit of the group as a whole. Prof Shanks argued that CRL, or one or more subdivisions of CRL, should be considered as the "employer's undertaking".

The Hearing Officer agreed with Unilever and decided that, regardless of how the various companies in the Unilever group have been structured, researchers at CRL were doing work which was going to be exploited by the Unilever group as a whole. This led him to the conclusion that the "employer's undertaking" was the Unilever group as a whole.

"Outstanding Benefit"

Unilever argued that the benefit was not outstanding, when compared to the overall profits made by the Unilever group, and further asserted that the manner in which the benefit was made (i.e. by licensing only without significant investment by Unilever) is not relevant to whether the benefit is outstanding. This should be decided simply on the amounts of revenue in the context of Unilever's total profits.

The argument advanced for Prof Shanks characterised Unilever's approach as that they were "too big to pay", in that once a company reached a certain size, it would be impossible for any benefit to be "outstanding" in the context of the profits of the entire group. This would mean that any claim against a large company would necessarily fail, and it was impossible that this was the legislator's intention when drafting Section 40. It was also argued that the reason Unilever got any benefit from the Shanks patents was because the invention was so significant, and not because of the licensing efforts made by Unilever.

The Hearing Officer agreed that the benefit from the Shanks patents was substantial and that it did "stand out" in comparison to the benefit from other patents to Unilever. Comparing the benefit from the Shanks patents to the profits made by manufacturing other patented products (such as Viennetta® ice cream, deodorants and spreads), the benefit provided by the Shanks patents fell short of being outstanding.

"Fair Share"

On this point Unilever sought to downplay the effort and skill of Prof Shanks, and emphasise development work and work done by Unilever to secure licences. For Prof Shanks, it was pointed

out that the Shanks inventions created an entirely new product and income stream without any substantial input from Unilever, and that Unilever did not put any substantial resources at risk.

The Hearing Officer then concluded that, if he had considered the benefit to be outstanding, then 5% would have been an appropriate fair share to be awarded to Prof Shanks.

Prof Shanks' claim for compensation thus failed, because the benefit to Unilever was not "outstanding".

The Second Step – Appeal to the High Court

Unsatisfied with the Hearing Officer's decision an appeal was made by Professor Shanks to the High Court. In [2014] EWHC 1647 (Pat)[3], Arnold J dismissed the appeal, holding that the Hearing Officer had made no error of principle in finding that the Shanks patents were not of outstanding benefit to Unilever. However, he continued, had he come to the opposite conclusion, he would have found that a fair share of the benefit would have been only 3%.

He also held that it was not appropriate to take into account the time value of money and that the benefit to Unilever should be discounted to reflect the payment of corporation tax.

The Third Step – Appeal to the Court of Appeal

Again unsatisfied with the decision of Arnold J in the High Court, Professor Shanks obtained leave to appeal to the Court of Appeal. In [2017] EWCA Civ 2[4], Patten, Briggs and Sales LJJ dismissed the appeal, agreeing with Arnold J that the Hearing Officer had made no error of principle in considering the issue of outstanding benefit.

By a majority (Briggs and Sales LJJ), they held that there would be cases where the change in the value of money over time would have to be recognised in determining whether the benefit was outstanding, and that it was likely to be relevant in assessing what amounted to a fair share of that benefit.

The Final Step – Appeal to the Supreme Court

Yet again unsatisfied, an appeal to the Supreme Court was launched by Professor Shanks, with judgment handed down on 23 October 2019, [2019] UKSC 45[5].

The issues considered by the Supreme Court were:

- i) What are the principles governing the assessment of outstanding benefit to an employer and did the Hearing Officer apply them correctly?
- ii) How should a fair share of an outstanding benefit be assessed and were the Hearing Officer and Arnold J wrong in their assessment?

"Employer's Undertaking"

The Supreme Court concluded that Professor Shanks was employed by CRL, and CRL operated a research facility for the Unilever group. CRL's undertaking for the purposes of section 40 of the 1977 Act 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.

It was to the size and nature of this undertaking, among other things, that the Hearing Officer was required by section 40 to have regard in assessing the nature of the benefit. The Supreme Court found that the Hearing Officer was "wrong in principle" when he took CRL's undertaking to be the whole of the Unilever group and this pervaded the whole of his evaluation.

"Outstanding Benefit"

The Supreme Court found that the Hearing Officer was "misdirected" in his focus on the overall turnover and profits generated by Unilever group. The rewards Unilever enjoyed were substantial and significant, were generated at no significant risk, reflected a very high rate of return, and stood out in comparison with the benefit Unilever derived from other patents. In short, the benefit Unilever enjoyed from the Shanks patents was outstanding within the meaning of section 40 of the 1977 Act.

The Supreme Court was not persuaded by Professor Shanks' arguments for a higher compensation of between 10% and 20%, considering that:

- The invention was made in the course of his contractual duties, although its subject matter was not the main focus of his work.
- Shanks was employed to invent and, in making the invention, did what he was employed to do.
- The patent generated a new stream of income for Unilever, but it did not do so without its input. To the contrary, it was brought to fruition by Unilever's negotiation of the licences, and that is something in which Professor Shanks played no part.
- Unilever made only a relatively small effort to commercialise the invention and exploited the Shanks patents at no real risk to itself.
- The Hearing Officer took these matters into account and thus made no error in arriving at his figure of 5%.
- Arnold J had no proper basis for reducing the fair share of the benefit to 3%.

The Supreme Court did however decide to apply to the 5% share an uplift to reflect the impact of time on the value of money. The original 5% of £24 million (£1.2 million) was thus uplifted to an award of £2 million to Prof Shanks.

The Supreme Court thus found that the "employer's undertaking" was CRL, that there was an outstanding benefit, and that a fair share of that benefit would be £2 million.

Conclusion

The persistence of Prof Shanks has provided, in the decision of the Supreme Court, important guidance as to the manner in which a claim for compensation under Section 40 is to be dealt with in future.

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October 2019

[1]
https://www.gov.uk/guidance/the-patent-act-1977/section-40-employees-inventions-compensation-

of-employees-for-certain-inventions and https://www.gov.uk/guidance/the-patent-act-1977/section-41-employees-inventions-amount-of-compensation

[2] https://www.ipo.gov.uk/p-challenge-decision-results/o25913.pdf

[3] http://www.bailii.org/ew/cases/EWHC/Patents/2014/1647.html

[4] http://www.bailii.org/ew/cases/EWCA/Civ/2017/2.html

[5] http://www.bailii.org/uk/cases/UKSC/2019/45.html

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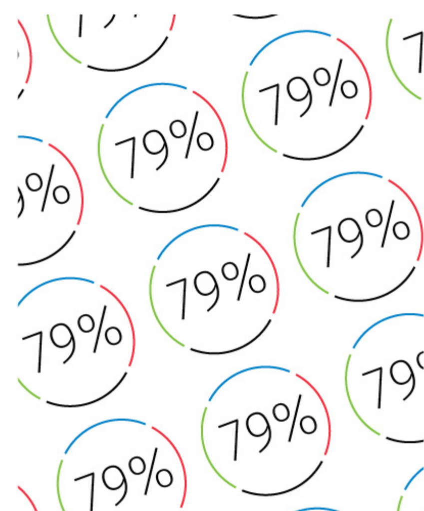

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