23 October 2019

PRESS SUMMARY

Shanks (Appellant) v Unilever Plc and others (Respondents) [2019] UKSC 45
On appeal from [2017] EWCA Civ 2

JUSTICES: Lady Hale (President), Lord Reed (Deputy President), Lord Hodge, Lady Black, Lord Kitchin

BACKGROUND TO THE APPEAL

From 1982 to 1986, Professor Shanks (the appellant) was employed by Unilever UK Central Resources Ltd ("CRL"). CRL employed the UK-based research staff of the Unilever group of companies ("Unilever"). It was not a trading company and was a wholly owned subsidiary of Unilever plc. While employed by CRL, Professor Shanks conceived an invention, the rights to which belonged to CRL from the outset under the Patents Act 1977 ("the 1977 Act"). CRL assigned those rights to Unilever plc for £100. Unilever was later granted various patents relating to the invention ("the Shanks patents"). Over time, Unilever derived a net benefit from the Shanks patents of approximately £24.3 million.

On 9 June 2006, Professor Shanks applied for compensation under section 40 of the 1977 Act on the basis that the Shanks patents had been of outstanding benefit to CRL and that he was entitled to a fair share of that benefit. On 21 June 2013, the hearing officer acting for the Comptroller-General of Patents ("the Comptroller") found that, having regard to the size and nature of Unilever's business, the benefit provided by the Shanks patents fell short of being outstanding. Professor Shanks appealed to the High Court and Mr Justice Arnold dismissed the appeal. Professor Shanks then appealed to the Court of Appeal. That appeal succeeded in part, but the Court of Appeal found that Professor Shanks was not entitled to compensation. Professor Shanks now appeals to the Supreme Court.

JUDGMENT

The Supreme Court allows the appeal. Lord Kitchin gives the sole judgment, with which the other Justices agree.

REASONS FOR THE JUDGMENT

An employee who makes an invention which belongs to his or her employer from the outset and for which a patent has been granted is entitled to compensation if he or she establishes: first, 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 secondly, that, by reason of these matters, it is just that he or she be awarded compensation **[30]**. At least in the ordinary case, Parliament intended the term "employer" to mean the inventor's actual employer **[31]**. The relevant benefit is the benefit the inventor's actual employer has derived or may reasonably be expected to derive from the patent, or from the assignment or grant to a person connected with him of any right in the invention, patent or patent application **[32]**. In assessing the benefit derived or expected to be derived by an employer from an assignment of the patent to a person connected with the employer (the circumstances of this case), the court must consider the position of the actual employer and the benefit which the assignee has in fact gained or is expected to gain **[33]**.

Previous cases on applications for inventor compensation are helpful to a point, but they provide no substitute for the statutory test, which requires the benefit to be outstanding. That is an ordinary English word meaning exceptional or such as to stand out and it refers to the benefit (in terms of money or money's worth) of the patent to the employer rather than the degree of inventiveness of the employee. It is, however, both a relative and qualitative term and the context must be considered **[39]**.

An "undertaking" is a unit or entity which carries on a business activity, and here the undertaking to be considered is that of the company or other entity which employs the inventor **[41]**. The correct approach in identifying the relevant undertaking is to look at the commercial reality of the situation. Where 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 **[48]**. A highly material consideration is the extent of the benefit of the Shanks patents to the Unilever group and how that compares with the benefits the group derived from other patents resulting from the work carried out at CRL **[51]**. The court should take into account matters such as the fact that a large undertaking might be able to harness its goodwill and sales force in a way that a smaller undertaking could not do **[53]**. However, 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 **[54]**.

As to the relevance of tax, the employee must account for any tax due on his or her fair share and the employer must account for any tax due on the balance. This approach is consonant with the legislative purpose of the provisions of the 1977 Act and is fairer than an approach which requires the employer to pay the employee a share of the benefit net of tax **[58]**. Separately, if the benefit is outstanding, then the fair share of the benefit should reflect 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 **[66]**. The 1977 Act does not bar the Comptroller from having regard to the impact of inflation. This approach is not unduly complex and should not encourage delay **[67]**.

The hearing officer's assessment of the benefit of the Shanks patents was flawed. First, he adopted the wrong starting point. CRL's undertaking for the purposes of section 40 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 **[79]**. Secondly, the hearing officer's particular focus upon the overall turnover and profits generated by Unilever was misdirected **[80]**. 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, and the hearing officer failed to take into account relevant matters **[81]**. Fourthly, the hearing officer wrongly adopted an approach which involved assessing the extent and nature of the benefit derived from a patent simply by comparing it to the patent owner's overall turnover or profits **[82]**. The hearing officer's decision must be set aside **[84]**. The benefit Unilever enjoyed from the Shanks patents was outstanding within the meaning of section 40 **[85]**.

Mr Justice Arnold was wrong to find that 3% would have represented a fair share of the benefit Unilever enjoyed from the Shanks patents **[90]**. It would not be appropriate to interfere with the hearing officer's conclusion that 5% would have been a fair share **[91]**. The fair share to which Professor Shanks is entitled is £2m and the appeal is allowed **[92-93]**.

References in square brackets are to paragraphs in the judgment

NOTE

This summary is provided to assist in understanding the Court's decision. It does not form part of the reasons for the decision. The full judgment of the Court is the only authoritative document. Judgments are public documents and are available at:
http://supremecourt.uk/decided-cases/index.html