Chapter 16: Ownership of patents

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Employee compensation

Typically any reward the employee receives for an invention owned by the employer is governed by the employer-employee contract of employment. However, as we discuss in this chapter, under s.40 of the Patents Act 1977 in the UK an employee can obtain compensation from their employer in certain cases where they have come up with inventions which their employer goes on to patent. In terms of statutory patent law, it is only where the patent is of 'outstanding benefit' to the employer that an employee is entitled to a 'fair share' of the benefit.

In Chapter 16 we discuss the High Court judgment in the leading case - *Shanks v Unilever Plc*.[1] The dispute was between Professor Shanks and Unilever, concerning a Unilever patent developed pursuant to an invention by Professor Shanks, and two others, while he worked at Unilever in the 1980s. Arnold J dismissed Professor Shanks' appeal against the decision of the UKIPO Comptroller General of Patents that the patents on his employee invention were not of 'outstanding benefit' to Unilever and thus Prof. Shanks was not entitled to an award of employee compensation. This was despite the fact that Unilever had received approximately £24.5m in revenues arising from the patent, because, viewed qualitatively, this was a comparatively small amount for Unilever, whose annual turnover exceeds £40billion. At the same time, Arnold J. stated at [69] that 'it would not be correct to construe section 40(1) as meaning that, if the employer's undertaking is large and profitable, no benefit can be outstanding however large it is'.

On appeal, the Court of Appeal confirmed the UKIPO and High Court rulings that when considering 'outstanding benefit' the employer group's turnover and profitability are highly relevant factors. Outstanding benefit is therefore a relative concept, which must be measured against the employer's economic and business realities.[2] Notably, Briggs LJ (at

[1] [2014] EWHC 1647 (Pat).
[2] *Shanks v Unilever PLC and others* [2017] EWCA Civ 2.

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[68]) dismissed the appeal ‘with some reluctance’ because Prof Shanks ‘might well have succeeded had his employer been a much smaller undertaking than Unilever’. However, the Court of Appeal felt bound by the wording of s.41, which specifically refers to the size of the undertaking.

These decisions have been superseded by a 2019 judgment of the Supreme Court. The UKSC found in Prof Shanks’ favour, overturning the earlier rulings. The UKSC stated that the concept of 'employer' can, in some circumstances, extend to a whole group of companies, and not just the subsidiary of that group that the employee was directly employed by. This is particularly so when assessing the benefits of a patent and associated employee claims of entitlement to compensation.[3]

The UKSC noted that ‘the commercial reality of the situation’ will dictate how broadly the term 'employer' should be considered. Here, a group of companies operating research facilities was held to be the 'employer' rather than the individual subsidiary that directly employed the inventor. Lord Kitchin stated:

> "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."

The UKSC ruled that the Shanks patents ‘were of outstanding benefit to Unilever’ and that Shanks was thus entitled to a fair share of that benefit, which the court determined is £2m.

The UKSC clarified how the ‘outstanding benefit’ to an employer and the principle of a ‘fair share’ of this outstanding benefit should be assessed:

[3] *Shanks v Unilever* [2019] UKSC 45.

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> "...many different aspects of the size and nature of the employer's business may be relevant to the enquiry… For example, the benefit may be more than would normally have been expected to arise from the duties for which the employee was paid; it may have been arrived at without any risk to the business; it may represent an extraordinarily high rate of return; or it may have been the opportunity to develop a new line of business or to engage in unforeseen licensing opportunities."

The UKSC indicated that it cannot automatically be assumed 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'.

On the question of what constitutes an employee's 'fair share' of the outstanding benefits derived from patents, the UKSC said 'the time value of money' can be a benefit derived from a patent, and employee inventors can therefore obtain an 'uplift' in compensation in some cases for 'the deleterious effect on the real value of money' that can arise where there is a delay between when employers receive patent royalties or other moneys and the employee finally getting their 'fair share'. This can include inflation considerations. Employees must pay tax on any benefit share they receive.

Employee inventions created outside of the workplace

Section 39 of the Patents Act 1977 states that an invention made by an employee belongs to the employer if created '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.' How would the law apply to an invention made by the employee in their own time at their home and using their own equipment e.g. a computer? In the 2019 case of *Prosyscor Ltd v Netsweeper* this very issue was at stake at the IPEC.[4] Mr Kite was a former Netsweeper employee. During his employment he worked remotely as a software developer for Netsweeper.

[4] *Prosyscor Ltd v Netsweeper Inc & Ors* [2019] EWHC 1302 (IPEC).

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Mr Kite had contributed to the invention of a piece of software - a method of discriminating between requests to access a website. His former employer claimed entitlement to an international patent application, and the national and regional applications derived from it. Mr. Kite developed the idea for the software application, and then another of Netsweeper's employees developed the invention to the point at which the international patent application was made.

At the IPEC HHJ Hacon considered the law on entitlement to a patent under an international convention as stated in an earlier IPEC ruling.[5] It is first necessary to identify the inventive concepts disclosed in the patent application through the eyes of the skilled person, and then decide who devised them. HHJ Hacon found that the inventive concept of claim 1 of the patent application was devised by both Mr. Kite and another inventor and that the other claim in issue was devised solely by the other inventor. HHJ Hacon held that Mr. Kite's contribution was made as part of his duties as an employee – evidence was put to the court that he had posted his idea on an internal company website during his time there – an intranet site known within the company as a useful tool for pooling ideas for development.

There is therefore a high hurdle for employees to be able to lay claim to ownership of inventions conceived in the course of their normal duties but made at home and out of normal working hours. HHJ Hacon remarked that the time/place of the devising of an inventive concept may be relevant to an assessment under Section 39, but these they are secondary considerations. If there is doubt as to whether the acts were conducted in the course of normal duties, the fact that they were done at home and outside of normal hours may tip the assessment to a finding that the invention was not made in the course of normal duties. Nonetheless, in this case the work leading to the invention was very much the sort of work the employee was paid to do - that the work was done at home and out of hours was not relevant. HHJ Hacon noted:

[5] *BDI Holding GmbH v Argent Energy Ltd and another* [2019] EWHC 765 (IPEC).

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"…acts of a nature such as to be within the normal course of an employee's duties do not cease to be so merely because the employee decides to carry out those normal duties at home and/or outside office hours and/or on his own equipment."

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