Advice on employee inventor compensation in the UK following Shanks v Unilever

August 2020

Prepared by Will James of Osborne Clarke with support from other members of the BIA IP Advisory Committee

Background

Financial rewards for employee inventors are a feature of the legal systems of a number of the world's most sophisticated technology-focussed countries. Germany and Japan have had inventor compensation provisions since the late 1950s, and France and the UK have had equivalent provisions since the late 1970s. Such schemes are intended to stimulate and reward innovation. There is a recognition that most inventions are made by employee scientists and engineers. Those individuals, or inventive teams, creative enough to devise valuable inventions, where patents underpin successful commercial products for the company, should (according to the various legislation enacted) be entitled to a financial reward in addition to their normal salary and benefits.

The rules in this area are by no means consistent across different countries, and in many situations are difficult to interpret and apply with certainty. For example, in Germany, compensation applies when any patent is commercialised by a company. Compensation is determined according to prescriptive statutory rules based on a number of factors including the economic value of the invention and the position of the employee within the company. In contrast, in the UK, compensation becomes due only when a patent or an invention has been of "outstanding benefit" to the employer company. In these less frequent situations, the employee is entitled to a "fair share", which will be determined by the UKIPO or the UK Patents Court, where the company has failed to make an adequate payment to compensate the employee inventor. However, quite when the "outstanding benefit" threshold has been reached to trigger a payment, and quite how the "fair share" (of the benefit) should be calculated, have remained difficult questions for employers and employees alike.

Whilst there are numerous anecdotes of confidential settlements between employers and employee inventors, there have been a number of failed applications for compensation and only two high profile successes since 1977 in the UK. The most recent success (*Shanks v Unilever*) has reinforced a number of points that are of potential importance to BIA members:

- The direction of travel has been to make the regime in the UK increasingly permissive for employees to make a claim for compensation. As a result of the rarity of successful claims under the original wording of section 40 of the Patents Act 1977, the legislation was amended by Government in 2004 to encourage claims where either the patent or the invention was of outstanding benefit. Both successful claims to date have been under the 'old law', because claims tend to be brought at the end of the 20 year life of a patent. Claims under the 'new law' could be easier in future.
- The case law to date has addressed the issues arising from both ends of the spectrum of patent exploitation: where the company has exploited the invention itself (requiring further investment and risk by the company, as in the first successful claim against GE Healthcare in respect of a blockbuster heart imaging agent[1]) and where the invention was licensed out to a third party in exchange for royalty income but with little further risk or engagement by the employer company (as in the recent case of Unilever relating to glucose testing-kits for medical diagnostics[2]).
- The legislation (and the application of the law by the courts) requires a multi-factorial assessment which takes into account the size of the employer, the commercial success of the product/invention and the level of benefit already accrued by the employee in the course of his employment.

---

[1] *Kelly & Chiu v GE Healthcare*
[2] *Shanks v Unilever*

- The courts have been willing to grant multi-million pound awards – Professor Shanks was awarded £2m and Drs Kelly and Chiu were awarded £1m and £0.5m respectively. Each of these rewards represented a percentage share of the financial benefit accrued to the company, after various discounting factors and considerations had been applied. For example, Professor Shanks was awarded 5% of £24m licence income, adjusted to reflect the time value of money.
- In the absence of a corporate reward scheme that specifically addresses the requirements of section 40/section 41 or provides a mechanism for the reward of employee inventors in the appropriate circumstances, inventors are required to bring a claim in the courts. Suing an employer puts the employee in an invidious position - especially when they are individuals taking on large, well-resourced, sophisticated multinational companies. Being sued by an employee because there is no alternative for them, and failing to settle the claim for a reasonable (and often confidential) amount, as well as losing at trial, is likely to see the company pay a sizeable award, the employee's legal costs and the company's own legal costs on top. For example, Professor Shanks' journey to a final decision was particularly protracted (taking around 13 years) and involving decisions from the UKIPO to the UK Supreme Court and every court in between.

Discussion

The UK's employee compensation law has been around for over 40 years and, if it was ever in doubt, this latest Supreme Court decision confirms that it is a legitimate feature of today's employment and patent law and is here to stay.

Despite the predictions of some industry commentators, the floodgates did not open following the first and subsequent successful claims for employee compensation, and the UK has not become a hostile environment for technology-driven industries. On the contrary, its existence in law is intended to incentivise and reward invention where there has been an outstanding benefit. There is no evidence that payments under the UK (and other international) regimes have become a burdensome extra cost for R&D focussed corporates. Whilst settlement can be an option, litigating the dispute for many years is likely to result in a significant cost to the business - as well as further costs and bad PR in the event of a public loss.

The good news is that a number of BIA members already have sophisticated inventor compensation schemes in place to allow employees to potentially obtain rewards (as well as corporate gratitude and recognition) without having to start a claim in the courts. The UK s.40 regime is designed to reward named inventors on successful patents, but the regime is part of a broader attitude to rewarding collective endeavour that already exists in many institutions of UK science and technology. The UK's Research Councils, particularly the MRC and BBSRC, have for many years shared percentages of exploitation income with those that have contributed to successful technical advances underpinned by patents and from which the council receives royalties. Presumably, individuals or teams of employee inventors working in companies with reward schemes, are already feeling incentivised and being compensated for their inventive creativity, and can feel confident that they will be appropriately rewarded in circumstances where section 40 is triggered. Whilst employees can never be forced to contract out of bringing a future claim in the courts, they will surely be less likely to want to bring a section 40 claim if their contribution has been recognised and, where appropriate, proactively rewarded by their employer as a routine part of the corporate culture.