

Unilever not ‘too big to pay’ employee-inventor

Supreme Court orders Unilever to pay compensation to inventor of diabetic testing kit

[Shanks v Unilever PLC & Others](#)

[\[2019\] UKSC 45](#)



In a landmark decision handed down on **Wednesday, 23 October 2019**, the **Supreme Court** has awarded retired **Professor Ian Shanks** **£2 million** as a fair share of the “outstanding benefit” which **Unilever** received from his invention in **1982** of the capillary fill diabetes testing device which has since been used by many millions of people all over the world.

Professor Shanks was represented by [Patrick Green QC](#) and [Chloe Campbell](#), instructed by **Christopher JL Ryan** (and by **Beresford & Co** in the courts below).

References in square brackets are to paragraphs in the **Supreme Court’s** judgment which can be found [here](#).

Overview

1. In a unanimous judgment delivered by Lord Kitchin (with Lady Hale, Lord Reed, Lord Hodge and Lady Black in agreement) the Supreme Court has allowed the appeal of Professor Shanks, awarding him **£2 million** as a fair share of the “outstanding benefit” which **Unilever** received from his invention in **1982** of the capillary fill diabetes testing device. This decision overturns the decisions of the **IPO**, the **High Court** and the **Court of Appeal** and fundamentally changes the established landscape in employee-inventor compensation cases under s.40 of the **Patents Act 1977**.

2. The significance of this decision for the protection of the rights of employee-inventors working for large companies cannot be underestimated. The courts below had essentially found that Unilever was ‘too big to pay’ because a profit of £24.3 million made on bare license fees for the patents on Professor Shanks’ invention was dwarfed by the worldwide profits and turnover of the entire Unilever Group, despite the fact that it was recognised that this was derived primarily from unrelated manufacturing and Unilever had not been able to show a single example of another patent from which it had received any similar benefit.
3. Under s.40 of the Patents Act 1977 an employee who makes an invention which belongs to his 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. The amount of compensation is that which is determined to be a fair share in accordance with s.41 of the Act.
4. This judgment provides long-awaited clarification of key issues in this field of law, namely:
 - How the employer should be identified particularly when the inventor works for a company within a multi-national group
 - How an “outstanding benefit” is to be assessed in that context and the corresponding regard which is to be had to the employers “size and nature” under s.40 of the Act
 - Whether when assessing what amounts to a “fair share” of that benefit under s.41 of the Act it is appropriate to deduct any liability of the employer for corporation tax
 - How the time value of money should be taken into account when a benefit is enjoyed many years before compensation is received

Identifying the employer’s undertaking

5. Lord Kitchin emphasises the significance of correctly identifying the correct employer’s undertaking for the purposes of assessing the benefit and, in summary, held that:



- The hearing officer adopted the wrong starting point by incorrectly identifying the employer's undertaking as that of the entire Unilever group. Professor Shanks was employed by Unilever UK Central Resources Limited ('CLR') which operated a research facility for the Unilever group, so the "employer's undertaking" for the purposes of s.40 of the Act was the business of generating and providing inventions and patents to Unilever for use in connection with its business. The hearing officer was wrong in principle to take CLR's undertaking to be the whole of the Unilever group and this pervaded the whole of his evaluation stripping the phrase of its context [47, 79].

Assessment of Outstanding Benefit

6. On the assessment of outstanding benefit, in summary, Lord Kitchen held that:

- Irrespective of his starting point the hearing officer's assessment of the benefit by simply weighing it against the overall turnover and profits generated by Unilever's worldwide business was misdirected, particularly in circumstances where it was recognised that these were primarily from manufacturing whereas the benefit was derived from bare licenses, when attempts to provide an example of any similar benefit from a patent had failed and where the size and success of Unilever's business did not play any material part in securing the benefit it had enjoyed from the Shanks patents [80; 81].
- The proper analysis, where a group company such as this operates a research facility for the benefit of the whole group, is to examine the extent of the benefit of the patent to the group and how that compares with the benefits derived from other patents for inventions arising from the research carried out by that company. This approach gives practical and commercial effect to the language of section 41 and ensures a comparison of like with like [48].
- The relevance of the size and nature of the undertaking must be assessed against this background. Lord Kitchen cautions that there is no single answer to this question and that many different aspects of the size and nature of the employer's business may be relevant [51]. However, he also cautions against assessing a benefit simply against an employer's overall profitability and sales. He finds that on the facts of this case the

Hearing Officer's conclusions pointed strongly towards a finding that the benefit was outstanding and that "*There was no justification here for simply weighing the sums Unilever generated from the Shanks patents against the size of its turnover and overall profitability in products such as Viennetta ice cream, spreads and deodorants*" [82] in reaching the conclusion that the benefit did "*stand out*" but was not outstanding [70; 71; 82].

- The Supreme Court found that the benefit derived from the Shanks patents was clearly outstanding when the approach it directed was correctly applied [71].

Assessment of Fair Share – whether to take account of corporation tax and the time value of money

7. On the assessment of the "fair share" of the benefit to be awarded and the impact of corporation tax and the time value of money, in summary, Lord Kitchin held that:

- The hearing officer had made no error in his approach to arriving at 5% as the figure determined to be a "fair share" under s. 41 of the Act, finding therefore that it was inappropriate to interfere with this conclusion and overturning the decision of Arnold J in the High Court who found that he would reduce the fair share to 3% [90 – 92].
- When assessing what amounts to a "fair share" of that benefit it is not appropriate to deduct any liability of the employer for corporation tax, as found by the Court of Appeal overturning the decision of Arnold J in the High Court, particularly in circumstances where the employer could take the benefit of any relief from tax in respect of any moneys paid whilst the employee would be liable to account for tax on moneys received [55-59].
- The impact of time on the value of money should be taken into account when a benefit is enjoyed many years before compensation is received, either because it may itself be considered a benefit derived from a patent within the meaning of section 41(1), or alternatively, as found below by the majority of the Court of Appeal, because the fair share of the benefit should in this case 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].

Concluding remarks

8. The Supreme Court therefore found that the Hearing officer fell into a number of errors in principle in reaching his conclusion and the High Court and Court of Appeal were wrong not to so find. Lord Kitchin was satisfied that the fundamental nature of these errors required that the decision be set aside and that it was not necessary to remit the hearing in circumstances where it was clear how the hearing officer would or ought to have decided had he directed himself correctly. Lord Kitchin noted this with some relief given the 13-year long history of the proceedings.
9. Employee-inventors whose employers do not reward them for outstanding contributions to innovation may today share that sense of relief as this decision from the Supreme Court allows the prospect of meaningful claims under this important provision to prevail.

[Patrick Green QC](#) & [Chloe Campbell](#)

23 October 2019

The Supreme Court's Judgment can be found here: [\[2019\] UKSC 45](#)

The Court of Appeal's Judgment (Patten LJ, Briggs LJ and Sales LJ) can be found here: [\[2017\] EWCA Civ 2](#)

The Decision of Arnold J in the High Court can be found here: [\[2014\] EWHC 1647 \(Pat\)](#)

The Hearing Officer's Decision in the IPO can be found here: [BL O/259/13](#)

Previous press coverage includes: <https://www.theguardian.com/science/2010/dec/02/professor-ian-shanks-diabetes>

Recent press coverage includes:

- **BBC News:** <https://www.bbc.co.uk/news/uk-50156965>
- **The Independent:** <https://www.independent.co.uk/news/health/diabetes-uk-test-professor-ian-shanks-compensation-ecfd-a9168761.html>
- **The Guardian:** <https://www.theguardian.com/business/2019/oct/23/scientist-compensated-2m-for-invention-used-by-unilever>
- **The Times:** <https://www.thetimes.co.uk/article/inventor-ian-shanks-gets-2m-after-13-year-fight-over-diabetes-kit-zls5zn7v>
- **The Telegraph:** <https://www.telegraph.co.uk/news/2019/10/23/scientist-created-pioneering-diabetic-tool-awarded-2m-13-year/>
- **Daily Mail:** <https://www.dailymail.co.uk/news/article-7605885/Scientist-invented-pioneering-technology-test-blood-sugar-awarded-2million-compensation.html>
- **World Intellectual Property Review:** <https://www.worldipreview.com/news/shanks-v-unilever-2m-supreme-court-ruling-paves-way-for-disgruntled-inventors-18792>

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