Ownership of inventions; employer-employee disputes

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What does the Patents Act 1977 (as amended) say?

Section 7 deals with the ID of the person who has the right to apply for a patent.**–**

S. 7(2) and (3) are (since 24/10/07!) known to be "**an exhaustive code for determining who is entitled to the grant of a patent**". *Per* Lord Hoffmann in ***Yeda Research v Rhône-Poulenc Rorer***, [2008] RPC 1, overruling *Markem Corp. v Zipher Ltd* [2005] R.P.C. 31 at p.761

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The basic presumption of ownership of inventions: s.7(2)

The creator of an IP item is prima facie its owner, in patents, designs and copyright, but that is a *rebuttable* presumption…

…which can be overcome by **contract** between the creator and a third party (usually but not always: a contract of employment between the employee-creator and his/her employer) or by a **rule of law,** enactment, operation of law such as the law of **insolvency** or the law of **succession**

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What else does the Patents Act 1977 say?

❖**Sections 8, 9, 12, 37 and 82** provide mechanisms for settling ownership disputes for UK and overseas patents

❖**These sections confer jurisdiction on the Comptroller to determine the dispute and, aside from remedies, the only substantive question for him is "Who is/are the true proprietor(s)" (Lord Hoffmann** in ***Yeda****)*

❖**Section 39 defines a code for ownership of inventions made by employees in dispute with their employers**

❖**INVENTION is not defined in the Act (cf. s.125) but the above apply even before an application for a patent is made**

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The basis of entitlement

"Inventor" is defined in **s.7(3)** as "the actual deviser of the invention". Lord H approved Laddie J's statement* that this is a natural person who **came up with the inventive concept*; his/her contribution must be to the formulation of that concept** and went on:

"Deciding upon inventorship will therefore involve assessing the evidence … as to the nature of the inventive concept and who contributed to it….there is no justification…to import questions of whether one claimant has some personal cause of action against the other" (taking a good dig at Jacob LJ in *Markem v Zipher* and overruling it*)*

**in University of Southampton's Applications* [2005] R.P.C. 11 at page 220 (234)

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The importance of getting the inventorship right

- While in UK and EPC law getting the inventorship wrong has in itself no deleterious consequences (not a ground of revocation/invalidity) in other jurisdictions, **especially in the USA, the consequences can be**
- **devastating and disastrous**
- Why that is so is outside the scope of this presentation, but suffice it here to say that especial care is needed if matter is added between a priority application and a subsequent application and the inventor of that added matter is not named and/or has not assigned his contribution to the assignee of the US application.

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The basis of entitlement: er, cockroaches

❖**Section 8 calls for the identification of the 'heart(s)' of the invention and the rights in it/them: look to the specific disclosure, not necessarily the claims (if any)**

❖*Univ of Southampton (supra* and CA [2006] R.P.C. 21 at p.567; *Stanelco Fibre Optics Ltd's Applications* [2005] R.P.C. 15 at page 319 approved.

❖NB Jacob LJ's observations in *Univ. of Southampton* on the high desirability of mediation and on the Comptroller's jurisdiction being unsuited to entitlement disputes

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Remedies available at the UK-IPO on application by an aggrieved claimant

- Removing the wrongful applicant completely and replacing with the rightful one, the application proceeding normally
- Adding the claimant to the application so as to become co-owner
- Refusing the wrongful application
- Order the exclusion of material from the application to which the applicant is not entitled
- Allowing the rightful owner/claimant of the excluded material to file its own application in respect of it and ante-dating it to the filing or priority date of the wrongful application
- In general, the IPO has unlimited power to do justice as between the non-entitled person and the entitled one

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Proper forum for disputes; when the IPO will transfer case to High Court (1)

- Entitlement disputes must start at the UK-IPO (as per PA1977)
- The IPO has the option open of transferring a dispute to Court if the referred question involves 'matters which would be more properly be determined by the court': s.8(7), 12(2)
- No clear guidelines when to transfer but initially IPO has been notably reluctant to do so, citing Parliamentary intention to confer jurisdiction on it.*

**There could also be a transfer to the Intellectual Property and Enterprise Court (IPEX).

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Proper forum for disputes; if IPO, when to transfer case to High Court (2)

Now: *Luxim Corp v Ceravision Ltd* [2007] R.P.C. 33 at p.797 (HC):

- No bias in favour of IPO retention of cases (rap on the knuckles)
- Complexity of case was decisive but Comptroller had to judge it in relation to different areas where different technical, factual or legal issues, particularly non-patent law issues such as e.g. fraud, could arise and needed to be judged against the expertise and experience of a hearing officer as compared with that of a judge

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Time bars

Time limit on disputing ownership:

- before the Comptroller**, s. 37(4) and (5),**
- before the court **s.37(9); note that** the IPO has apparently a greater variety of remedies

Two years unless alleged owner **'knew'.**

See next slide on the *Angle Ring* case

House of Lords in *Yeda Research v Rhône-Poulenc Rorer*, [2008] R.P.C. 1, overrules CA, itself reported as *Rhône-Poulenc Rorer v Yeda Research* [2007] R.P.C. 9 at page 167

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Time bars: the last word (so far) on 'knew'

After a couple of conflicting IPO decisions, now the Court:

Angle Ring Co. Ltd v ASD Westok Ltd [2015] EWHC 2779 (IPEC)

"What the court is having to decide….is whether the individual in question [whose 'knowledge' is in dispute] must have known the relevant facts. [It is suggested that] there is a distinction between (a) proving that the patentee knew that he was not entitled to the patent, and (b) proving that he must have known that he was not entitled….That…is a false distinction. In practice, they amount to the same thing. The latter is in reality is what the court will decide at trial in order to reach a conclusion as to the former."

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Time bars: the *Yeda* saga (1)

facts considerably simplified!

❖**Yeda scientists invented a new cancer drug which made use of monoclonal antibodies belonging to RPR. They sent details (in effect) to RPR who filed their own patent application, eventually granted on 27 March 2002**.

❖On **26 March 2004** Yeda applied to IPO under **s.37** to be co-owners and their scientists to be co-inventors.

❖**Outside the 2-year period**, Yeda then applied to amend their statement of claim to become SOLE owners. The IPO thought this was OK but the HC and the CA thought this was a new claim and thus **statute-barred.**

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Time bars: the *Yeda* saga (2)

❖**Lord H** comes charging in on his white steed:

❖A statement accompanying a reference to the UKIPO under **s.37** is NOT analogous to a claim form initiating proceedings in the Court under the CPR or the Limitation Act 1980

❖Rather, such a reference is governed by **its own limitation period and its own rules,** hence argument whether amended claim is a new one or not is irrelevant. **The Patent Rules 2007, rules 82 and 107** confer very wide discretion on the IPO to allow amendments

❖The **true question** is: whether amendment of the statement of facts would make the reference a ***new*** reference. Here the essential question was not changed, hence **not statute-barred** and the statement could be amended

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Employees' inventions (1) (ss.39-43)

These sections apply only to situations where between two persons there exists a (written, oral) relationship of a **contract of employment**

There can be problems in identifying the status of a person as an employee or as an independent contractor, with much case-law, an important recent one being *Autoclenz Ltd v Belcher and ors* [2011] UKSC 41

Section 39: complete, self-contained code* overruling previous 'rules of law' .- The owner is either the employer or the employee: joint ownership is not possible: **s.39(2) –** but if there are joint inventors it is possible to envisage such sharing

*see later slide about the effect of **confidentiality** and the common law in **s.42(3),** *LIFFE v Pinkava* [2007] R.P.C. 30 at p. 667

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Employees' inventions (2) (ss.39-43)

Attention: **s.43(4)** is a mini-definition section to ss 39-43. Note esp. that 'patent'=patent 'or other protection'; and that foreign patents are covered.

Attention: For inventions and patents since 1.1.2005 Section 39 applies not only to patents (whatever that may mean) but also to *inventions*, whether a patent has been applied for or not

Attention: **'Invention'** may be embodied in other forms of IPRs, e.g. registered designs, copyright etc and this is allowed for in **s.39(3)**

Peculiar wording giving employees immunity from infringement where they own and exploit those aspects of the IPR that they own while the employer owns other aspects

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Employees' inventions (3)
A closer look at section 39

- **Sub-section (1): A fork in the road and a two-stage enquiry in each fork, the focus of both first stages being on the employee's duties**
- **Stage One:**
- **Fork (a):** ordinary employees, normal* or specifically assigned duties
- **Fork (b):** management and higher, duties giving rise to special responsibilities

*duties do evolve during employment, without there being necessarily any written variations of contract; must distinguish between evolved normal duties and specifically assigned duties: see later slide *LIFFE v Pinkava*

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Employees' inventions (4)
A closer look at section 39

- **Stage Two:**
- **Fork (a):** an invention might **reasonably be expected** to result from carrying out the duties (objective standard but…[see *LIFFE*)
- **Fork (b):** the special responsibilities give rise to a **special obligation** to further the employer's interests (i.e. a kind of position of trust, it would be unconscionable to hold invention against employer)
- Cases: *Harris' Patent* [1985] R.P.C. 19; *Greater Glasgow Health Board's Application* [1996] R.P.C. 207; but now
- ***LIFFE Administration & Management v Pavel Pinkava*** **[2007] R.P.C. 30 at p. 667; CA**

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Employees' inventions (5)
A closer look at section 39

In ***LIFFE Administration & Management v Pavel Pinkava*** [2007] R.P.C. 30 at p. 667; CA Jacob LJ said: **"…in the end, one is asking whether the employee is employed to try to innovate and, if [the employee] is, what general sort of areas [the employee's] innovation duties cover"**

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Employees' inventions (6)
A closer look at section 39

In *LIFFE* the Lord Justices disagreed on one issue: in relation to 'might reasonably be expected' are the personal attributes or abilities of the employee-inventor relevant?

Two LJs and the judge below said 'yes, relevant' but Jacob LJ said '*irrelevant whether "thick or brilliant"; dangerous to enquire into personalities'*

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Employees' inventions (7)
The inventor's personal attributes controversy

Said Jacob LJ:

"I cannot accept that ….there can be a difference as to ownership depending on whether the employee is thick or brilliant. Why should an unimaginative employee get the invention because no-one expected him to come up with anything whereas an Edison…has to hand it to his employer?"

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Employees' inventions (8)
Let's talk cash!

Possible consequences of an ownership determination under s.39: employee MAY be entitled to money which the Act quaintly calls compensation.

[This used to require a 'patent' (s.43(4)), but now under Patents Act 2004, requires a 'patent and/or invention']

Whether, and if so, how much, is set out in s.40 and s.41, respectively.

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Employees' inventions (9)
Let's talk cash (2)!

Sections 40 and 41 have a 'bifurcated' structure, depending on whether the patent and/or invention ("PI")* was always owned

- **by the employER; or**
- **by the employEE who subsequently assigned the invention/patent or granted the employER an EXCLUSIVE licence**

* 'and/or invention' added by Patents Act 2004, and this overrules *Memco-Med's Patent* [1992] R.P.C. 403

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Employees' inventions (10)
Let's talk cash (3)!

Elements of Section 40(1):

- **patent and/or invention ("PI") was always owned by the employER;**
- **application for compensation is made before time bar (1 year from 'cesser') NB need to monitor non-renewal;**
- **PI is of OUTSTANDING BENEFIT (OS) to employer**
- **Whether OS is influenced by size + nature of employer's "undertaking"**
- **See *Shanks v Unilever* [2019] UKSC 45 – a landmark case for a discussion of what constitutes "undertaking" and the relevance of its size; case discussed below**
- **no equitable factors vs paying the employee ('just')**

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Employees' inventions (11) From 1978 until February 2009…

- Not a single application for compensation/reward succeeded as far as contested court decisions were concerned (though many confidential private agreements were rumoured…) **UNTIL**
- ***Kelly and Chiu v GE Healthcare****
- **Dr Kelly was awarded £1 million and Mr Chiu £1/2 million …a third inventor still with GE did not take part in the action**

- ***[2009] EWHC 181 (Pat); [2009] R.P.C. 12 at page 363; on *www.bailii.org* and see *CIPA Journal,* February 2009 and especially September 2009 at page 606**

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Employees' inventions (12) *Kelly and Chiu v GE Healthcare*

The patent was applied for before the Act was amended, so it was a case of the patent and not the invention having to be of 'outstanding benefit'. The *Memco-Med* test was applied. The case will remain a precedent until 2024!

Company sales in excess of £1.3B (actual profit kept confidential but R&D costs were recouped within 1 year of marketing). A radio-imaging compound for cardiography.

Judge found that without the patent the company would not have been able to enter into vital licence and distribution agreements and maintain a strong position in the market with or without regulatory data exclusivity.

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Employees' inventions (13)
Kelly and Chiu v GE Healthcare

"**outstanding benefit**":- how to evaluate

Dictionary meaning: "something special"; "out of the ordinary"; more than "substantial", "significant", "good"

benefit has to be **something more** than would normally be expected to arise from the duties for which the employee was paid

'you will know outstanding benefit when you see it'

"but for" test: can be useful to consider position of company if patent had not been granted (*Memco-Med)-but* 'invention' post Jan 2005

Superprofits test: compare profit margins on patent/invention with profits on the company's other products

Just: *Kelly* established some factors of which do not make an award **unjust:** delay in bringing claim; position of other employees; inventors not having complained before; employer's risks and investment

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Employees' inventions (14)
Kelly and Chiu v GE Healthcare

The judge valued – in his own words – the patent 'very conservatively' at £50M; and the appropriate royalty rate, i.e. as per s.41, a 'fair share', at 3%, arriving at the figures for the inventors of £1 million and £½ million

Re s.43(4) the judge considered regulatory data exclusivity not to be 'other protection' but also added (wrongly in view of s.39 (3)?) that 'other protection' must involve (i) a grant, and (ii) a monopoly; but cf *Ibcos Computers Ltd v Barclays Mercantile Highland Finance Ltd* [1994] FSR 275

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Employee's inventions (15)
Shanks v Unilever
What is the undertaking for a group of companies?

Prof Shanks ("S") was employed by a Unilever ("U") company CRL, a research, non-trading company. He developed an invention that was patented and always belonged to CRL (s.40(1)) - undisputed. CRL assigned the patent rights to U plc for £100. Over time U licensed the patents and derived a net benefit of £24M.

In 2006 S applied under s 40(1) for compensation; U contested the application essentially on the ground that that relative to the size of its whole business £24M was not outstanding. Successively the IPO, the Patents Court and the Court of Appeal agreed with U. S appealed to the Supreme Court, which in October 2019 (13 years after the case began) overruled the lower decisions and awarded S £2M compensation.

WHY?

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Employees' inventions (16)
Shanks v Unilever

The Supreme Court was asked to decide the true meaning of 'undertaking' in the context of a big conglomerate of companies (unlike the *Kelly* case).

Put succinctly: are there 'undertakings too big to pay?'

And if so, is Parliament's intention to allow for compensation in suitable cases to be circumvented?

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Employee's inventions (17)
Shanks v Unilever
What is the undertaking for a group of companies?

The Supreme Court's analysis can be summarised thus:

An "undertaking" is the entity that employs the inventor. CRL did research for the benefit of the whole group. The benefit of a CRL-developed patent/invention is to be compared, **not with the overall profits of the whole U group**, but rather with the benefit derived by the group from other CRL patents/inventions.

In *Kelly* the patents in effect transformed the whole of the employer's business. This was not the case here, as per Lord Kitchin:

"I think a tribunal should be very cautious before accepting …that a patent has not been of outstanding benefit simply because it has had no significant impact on the overall profitability or the value of its sales. Those profits and sales may have been generated by a range of different products which have nothing to do with the technology …of the patent". {para.54 of the judgment].

U's profits derive largely from consumer products e.g. Dove® soaps and gels, Viennetta® icecream etc..

We need now to turn to s.41 to decide the size of S's compensation but after dealing with the other limb of s.40..

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Employees' inventions (18)
Still talking dosh!

Elements of Section 40(2):

❖PI was always owned by the employEE but now assigned or exclusively licensed to employER ('the contract');

❖application for compensation is made before time bar (1 year from 'cesser')

❖PI does not have to be outstanding, now a comparison has to be made between the respective benefits derived by each party to the contract

❖employee's benefit 'inadequate' relative to employer's benefit

❖S.40(2) cannot be ousted by contract: s. 40(4) – contrast with s. 40(1) – but see s.42(2) (below)

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Employees' inventions (19): Quantum

Elements of Section 41 ('how much?'):

❖Overall guideline: securing the employee a fair share of the benefit which the employer has derived or may reasonably expected to derive form the Patent and/or the invention

❖Factors if always employer-owned: s.41(5)

❖Factors if now employer's by 'contract': s.41(6)

❖To use Jacob LJ's phrase in *LIFFE*, is 'thick' more deserving than 'brilliant'??

❖Was the judge right in *Kelly and Chiu* (above) in wishing to be fair to the employer to justify his self-confessedly conservative approach to the quantum of compensation?

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Employees' inventions (20): Quantum

Elements of Section 41: Connected persons

S41(2) does introduce hypothesis into the determination where the employer has disposed of or licensed the patent to a connected company. This sub-section was first considered by the court in *Shanks v Unilever*,* The section was found to be poorly drafted and to contain grammatical errors. Nonetheless, the court attempted to attribute to Parliament an intention in the light of which the statute would be interpreted.

If the analysis is to include amounts the employer "might reasonably [to] be expected to be so derived" had the patent had been sold or licensed otherwise than to a connected person, what would be the basis of that deal? * [2009] EWHC 3164 (Ch); [2010] RPC 11

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Employees' inventions (21): Quantum

Shanks v Unilever (cont'd)*

The 1st instance decision was overruled in the Court of Appeal: [2010] RPC 12. "Connected person" in s. 41(2) means an actual assignee with its actual attributes and was to be read consistently with s.41(1) to embrace that actually obtained within the employer's group of companies at the time of the application for compensation. – The CA suggested that s.41 "reached through" s.40 so that in a claim the employee can include the benefit to the employer AND to other companies in the group.

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Employees' inventions (22)

Ancillary matters

- Override: collective agreement with a TU: s40(3)+(5)
- If application for cash refused, can re-apply; s41(7)
- An order for dosh may be varied, discharged or suspended: s41(8)
- Employee must have a contractual connection with the UK: s43(1) [latest case: *Lawson v Serco Ltd, Botham v Ministry of Defence and Veta Ltd v Crofts* [2006] UKHL 3]
- If employee dies, his/her personal successor can take his/her place: s.43(5)(5A) and (6)

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Employees' inventions (23)

Diminution of rights and confidential information

❖**Section 42(2) is very important:** it stops the practice of employers offering contracts of employment with oppressive IPR ownership clauses

❖But diminution of rights can occur in other ways, what about **the duty to disclose before filing?**

❖In ***LIFFE***, Jacob LJ read **s.42(2)** together with **s.39** and he usefully stated that **s.39** alone determines ownership of employee inventions and **s.42(2)** is both an anti-contracting-out mechanism and a means for controlling with overstated/exaggerated duties laid down for employees in their contracts.

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Employees' inventions (24) Diminution of rights; confidential information

➢He also read **s.42(3), duty of confidence**, as modifying **s.39**: "…although s.39(1) is a complete code, it lets the common law back in via the concept of 'duty' [of confidence]." Otherwise, there could be an impasse.

➢If in the course of his/her work an employee came up with an idea which the common law required the employee to hold as CONFIDENTIAL to his employer, that would be covered by **s.39.**

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THE END!

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