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Inventors Receiving their Just Rewards?

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In a recent decision from the High Court in the United Kingdom (UK),¹ two inventors have been awarded a combined total of 1.5 million pounds compensation for contributing to a patent which proved to be of an “outstanding benefit” to their employer.

Background

An employer’s right to ownership is specifically covered in the UK Patents Act which also states in sections 40 and 41 that an employee (as the inventor) is entitled to a compensation award where the employee has made an invention that is of an *outstanding benefit* to the employer.

It is well established in New Zealand that if an employee makes an invention during the course of their work duties then, in the absence of any other agreement to the contrary, the patent covering that invention will belong to the employer.² Unfortunately for employees in NZ however, there is no *outstanding benefit* provision in the NZ Patents Act.

What was taken into consideration when awarding the payout?

Sections 40 and 41 of the UK Patents Act have been in place (in slightly varying forms) for 30 years, but this is the first occurrence of compensation actually being awarded to an employee.

The two claimants, Duncan Kelly and Ray Chui, were employed by Amersham International Plc, which later became GE Healthcare Ltd. Their research efforts were aimed at synthesising phosphine compounds for use in radioactive heart imaging. The result was a product called *Myoview* which, following launch in the UK, Japan and the US, earned an estimated £1.3 billion up to 2007.

Under section 40, in order for the employees to be successful in their claim, they had to show that the patent was of outstanding benefit to the employer. Therefore in this case, it was not the value of the invention *per se*, but the value of the patent that covered the invention that was considered by the Court.³

In considering whether compensation should be paid to the employees, the Court considered several aspects of the situation. These included:

- if there was actual *outstanding benefit* to the employer;
- what the contribution of the employer was, *e.g.* the research costs and risks supported by the company;
- what the contribution made by the employees claiming compensation was, *e.g.* were they working independently, in a small team, or as part of a large team?

In this case the relatively small research costs incurred by the employer were recovered in the first year of sales of the product. The Court also looked at the compensation

already received by the employees in the form of salary, bonuses, and promotion. After considering these points and the values of the patents, the Court decided that it would be *just* to award compensation.

When considering the actual value of the patents, the Court considered a hypothetical scenario in which the patents had not been granted and contrasted this with the actual situation. In the hypothetical scenario, the product could still have gone to market, but without the monopoly afforded by the patents. The Court considered there to be two main advantages of the actual situation in comparison to the hypothetical one:

1. The price that can be charged for the product in the absence of competitors; and
2. Corporate success in deals by Amersham to acquire stakes in other pharmaceutical companies (it was considered that without the patents as assets, these deals would not have been achieved or at least not under such favourable terms).

The Court considered the first point to be the most important factor, and went on to value the amount of compensation due to the employees using an estimate of the increase to profits due to the absence of competitors.

The calculation of the award

The Court considered the number of potential competitors in the market, for example in the US, and found that there was unlikely to have been any competition until regulatory data exclusivity had expired. Therefore, it was only profits from the sales of Myoview after the expiry of data exclusivity that would have been beneficially affected by the presence of the patents. This was estimated to be half the total sales. It was estimated that the sales would drop

by ~10% if competitors had entered the market. By taking a round figure of £1 billion for sales of the product, the value of the patent was found to be 10% of half the sales of the product, which gave a figure of £50 million. After considering the contribution of each of the inventors the Court awarded 2% of this figure to Dr Kelley (£1 million) and 1% to Dr Chiu (£500,000). In the context of the total sales figures, the compensation appears conservative. The total compensation paid out is estimated to be only three days profits from the sales of Myoview. It is interesting to note though, that neither party has appealed.

Would a similar law be beneficial in New Zealand?

This case concerned a section of British Patents Act which is not present in the current NZ Patent Act. There is a Patents Bill currently before Select Committee and there is a possibility that such a provision could be added at a later stage of the legislative process. Would such an addition make it fairer for employees making exceptional contributions, or would it place an additional burden on NZ businesses trying to compete in the world marketplace? This is a difficult question to answer, however it is a question that, at least in Britain, has been answered positively.

An observation: one thing that this case highlights is the value of having patent protection for key products. The two main advantages of the actual situation in comparison to the hypothetical one that were considered by the Court in this case are clearly valuable advantages for any company to have. In the absence of patent protection those advantages would be lost.

A reminder: if you have any queries regarding patents or patent ownership, or indeed any form of intellectual property, please direct them to:

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- 1 *Kelly and others v GE Healthcare Ltd* [2009] EWHC 181 (Pat)
- 2 *Empress Abalone Ltd v Langdon* [2000] 1 ERNZ 147 and [2000] 2 ERNZ 53 (CA)
- 3 This section was amended by the Patents Act 2004 to make compensation payable when the *invention* or patent (or combination of both) is of outstanding benefit to the employer, but this will only be applicable to patents applied for after 1 January 2005.



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