



Patenting of Business Systems Issues Paper

AIIA Response

Date: September 2002

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Document Approval Form

Level	Approver	Signature	Date
Draft - Members Consulted			
Draft - Board Approved			
Draft - ED Approved			
Final - Proofed			
Final - Release Approved			

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1 Executive Summary

The Australian Information Industry Association (AIIA) is the leading national body representing suppliers and developers of information and communication technology (ICT) goods and services. AIIA has over 370 member companies that generate combined revenues of more than \$50 billion, employ over 100,000 Australians and have exports exceeding \$2 billion per annum.

Many AIIA members develop and patent business systems as part of their international operations. Since its inception, AIIA has been critically involved in all aspects of public policy and associated debates about the need for adequate intellectual property (IP) protection.

Such protection is crucial in encouraging innovation and investment in Australia. It is the single most important element of the creative economy. Frequently, IP is the key asset for many small enterprises, and the critical one to attract venture investment.

IP principles must be extended to the on-line environment in a clear, stable and technologically neutral manner. There must also be increased international cooperation on jurisdictional issues and implementation of effective enforcement regimes.

In addition, it is vital that IP creators and investors are educated and informed so they can maximise the value of their IP. Government should provide appropriate resourcing and priority to enforcement and implementation bodies, and ensure that policy frameworks support effective management and commercialisation of IP created for the public sector.

AIIA has reviewed the *Issues Paper on Patenting of Business Systems*, and is pleased to provide the industry response to the matters raised therein. In summary:

- **All** IP protection measures are crucial to economic growth and international competitiveness, patent protection no less than any other;
- Australia should aim to set threshold tests for patents of business systems at no less than those set by any international obligation under which we conduct ICT trade;
- AIIA has no evidence that competition is stifled through the application of the patents system to business systems. This is mainly due to the fact that it is impossible to measure, other than theoretically, the impact of market opportunities foregone;
- Sui generis protection for business systems is not necessary;
- The current term of 20 years is appropriate and should not be either extended or reduced;
- The requirement of 'technical implementation' should be considered;

- IP Australia should be more appropriately resourced to meet the skills and abilities requirements inherent in effective application of the patents threshold test to business systems.

2 Overview

AIIA is firmly of the view that a sound, valid and rigorous patents system, which has the support of the IP community, is essential to the continued development and commercialisation of new technology. The international character of patents makes them a crucial tool in penetrating export markets and thus increasing Australia's international competitiveness.

For the creative economy, patent protection (and other IP protection) is essential; as with all IP protection, the key problem addressed by patents is the threat of free riding on investment of intellectual effort. Unless protected for the limited patent period, inventions can be cheaply copied or imitated by competitors, thus making it impossible for the investor to recoup the cost of the original investment.

AIIA recognises the need for balance in this area; patent procedures must tread the line between competitive interests and monopoly rights (albeit limited) so as to ensure social costs do not outweigh social benefits in granting such monopolies.

In addition, AIIA supports the concept that rights under patents may be traded, (sold or licensed) and this is pivotal in the global economy in which Australia's ICT industry is a small but vital player. Effective patent protection facilitates trade in ICT, both domestically and internationally; access to an adequate patent protection system for foreign ICT suppliers allows local firms to import technology that would otherwise be unavailable, or available at a higher cost. Such access can only increase our competitiveness here and abroad.

Accordingly, because of the long term reciprocity of patents systems, it is critical that our patent system provide at least the same level of quality examination as that provided in our major trading partners' environments. This means that validity of patents for business systems should depend on their novelty and inventiveness.

3 Definition

“A business system is a method of operating an enterprise, or of processing financial or management data, in a field of economic endeavour.”

AIIA recognises the inherent definitional difficulties in this area. The proposed definition in the Issues Paper, while somewhat broad, is a good attempt at focus. It allows that business systems are, or should be, directed to the way information is obtained and used, rather than development of new technologies. A wider definition

would arguably allow too vague a concept to be accepted as a business system, thus diluting the rigour of any final patent protection (subject, of course, to threshold tests and technical implementation considerations).

4 Growth

The Issues Paper seeks data on the possible future growth in popularity of patents for business systems. AIIA member evidence indicates that while the application of patents to business systems was a “big issue” 12-18 months ago, it appears to have been levelling out recently. It is worth noting that the steep growth in the number of patents filed and granted (particularly in the US), has moderated in recent times.

The co-incidence (of a sharp rise in applications) seemed to occur with the boom in on-line trading (shopping and marketing etc) as well as a certain marketplace “me-too” attitude in the wake of Amazon’s assertion of the one-click patent against Barnes and Noble. Other market participants apparently felt some pressure to ensure their own business systems were patented, and this had a flow-on impact, such that many believed they could not afford NOT to patent business systems. This may have had a sideline impact whereupon applicants sought to patent methods that perhaps did not fit the threshold tests.

The decline in criticality and numbers of patents for business systems should not, however, be taken as an indicator that adequate IP protection in this area is not important.

5 Prosecution of Patents in Australia

AIIA accepts the ex ante exclusions of mere schemes, plans, discoveries, ideas and scientific theories under current patent law implementation. Similarly, “abstract information without any suggestion of a practical application of it to a useful end” (NRDC case) is equally and reasonably excluded from patent protection.

AIIA queries whether IP Australia’s initial response to the “artificially created state of affairs” obiter in the NRDC case (namely that an invention must be technically implemented, or have a technical means of putting it into effect), was a valid approach. Technical implementation can help to ensure that too loose an approach is not allowed to develop, to the point that “mere” schemes or plans are accepted as business systems. Rigorous application of threshold tests can also help obviate this potential problem.

6 Economic Significance

Economic significance of any market development or activity is notoriously difficult to measure in dollar terms because of the inherent nature of opportunities foregone; it is impossible to know whether future competitive growth would have occurred but for the use of patents (or any other market influencer).

It can safely be stated however, that **all** IP protection is crucial to the growth and development of Australia's ICT sector, particularly in an internationally competitive market.

Any diminution of rights, or perceived diminution, will create uncertainty and consequent growth retardation in an otherwise active and vibrant economic sector. Similar uncertainty will be seen in the R&D area if there is any suggestion that either patent or other IP protection is to be diminished by government policy. In particular, the apparent flattening of demand for patents on business systems to a more normal long term level here and in the US must not be used as a springboard for any loosening of the rigour of current patent protection.

7 Innovation

Adequate protection of all innovations is essential to the ongoing dissemination of knowledge and increased innovation in the ICT sector. Without such protection, investors and prospective innovators in creative effort will not be able to prevent others from appropriating the fruits of their efforts and that investment. This is the so-called 'free ride' on investment, the outlawing of which is the single most effective way of ensuring certainty in innovation.

If it is suspected that those not contributing to the original investment or innovation can in some way benefit from it, original innovators will be justly concerned that they could never recoup their costs, and would thus not engage in further innovation or investment.

AIIA has no evidence that innovation has been inhibited because of patent protection of business systems; we would argue the contrary. As indicated in the Priceline situation, alternative business systems are encouraged (through either legitimate imitation or another innovation to meet the same market need) so there is little support for the view that the limited monopoly granted under patents is producing social costs as opposed to benefits. The "invent and disclose" aspect of patents can be said to encourage growth and innovation rather than stifle it.

8 Australian Practices and Laws

AIIA members believe there is an appropriate balance currently drawn between monopoly rights and social benefits, through Australian patent legislation and its implementation.

We suggest that IP Australia review its abandonment of the ‘technical implementation’ approach, on the basis that it provides some additional rigour to the concept of what is a reasonable business system and whether it should be patented.

Recent amendments to the Patent Act and its administration aimed at increasing the validity of granted patents will foster better certainty and confidence in the rigour of those patents. This is due to the new ‘burden of proof’ approach which obviates the past practice of (perhaps) granting patents because there was no good reason not to, and also because insufficient information about prior art left the patents examiner in an untenable position.

The new approach reverses the practice so that now there must be a positive reason TO grant a patent. This will further enhance the validity of granted patents and may act as an argument in support of further and better skills resources for examiners in IP Australia.

The issue of skilled examination based on relevant prior art should be addressed. In the US this issue has been addressed by providing examiners with better prior art databases, access to better search technology and better skills training.

AIIA strongly recommends IP Australia be provided with similar improvements so that prior art arguments no longer call into question the effectiveness of granted patents, or the examination process. In this AIIA is at one with the Final Report of the IPCR Committee, and its recommendation on page 168.

Current laws provide a well-balanced set of rights for business systems innovation. There is no need for sui generis approaches to deal with the patents on business systems. This suggestion was made in relation to computer software protection in the 80’s and early 90’s and the industry soundly rejected it then. The Patents Act is sufficient, when applied and administered with skilled, adequate and appropriate resources, to protect whatever business systems are invented in the competitive market.

Similarly, 20-year protection should not be altered. There is no evidence that a shorter term is required, or a longer one is necessary to ensure protection. Because of the more streamlined processes attaching to the ‘innovation patent’ there may be some smaller enterprises or start-up organisations for whom a shorter term (8 years) would be attractive. Indeed, there is some evidence that smaller organisations are investigating the use of the innovation patent, to reduce their costs.

On the other hand, some SME’s choose not to use the patent system at all since the ‘disclose’ requirement, in return for the limited monopoly, is perceived as putting them too much at risk in a competitive market.

Whatever the case, applicants for patents should be able to choose which approach suits their business needs and resources at the time. Most serious applications for protection of an innovative business system will adopt the better protection inherent in the 20-year term.

9 Costs

Invariably, applications for patents on business systems involve costly and time-consuming processes, not least because of the complexity of the examination, exacerbated by the lack of adequate resources skilled in prior art analysis. Anecdotal evidence from AIIA members indicates that these costs can be in the range of \$10,000 to \$50,000 depending on the complexity of the application. This type of expense is simply out of the question for SME's, and may explain the move towards the use of Innovation patents by smaller organisations. However, steep or rising costs will also impact IP Australia in so far as the agency is required to assess its performance from an outcomes and budget aspect.

AIIA recognises that increased and better skilled resources for IP Australia may appear an initial sunk cost to the Government but in the longer term it will reduce costs by making the application and grant processes more efficient and effective. Accordingly we strongly recommend that IP Australia be provided with increased resources to allow for better administration (in both quality and timeliness) of the grants process.

In addition, AIIA does not subscribe to the view that less certain applications be granted on the basis that their validity can be tested later through litigation. Using litigation to validate any patent, not just complex business systems, immediately calls into question the quality of granted patents, and adds to the cost of the hitherto successful applicant. It introduces an element of chance into what should be rigorous and sound patents aimed at protecting investment. Again, more and better resources will ensure ALL granted patents have the same validity, and do not have to be tested in court, simply to correct results of an earlier lax process.

10 Conclusion

AIIA reiterates the need for certain, well administered and rigorous protection for all ICT intellectual capital. Protection for business systems is no less a crucial requirement than is protection for software. Parity with our trading partners dictates that our threshold tests be administered at least at the quality examination levels as those countries with whom we enjoy the main ICT trade relationships.

International competitiveness, exports and market growth will be encouraged with the continued development of a robust IP environment. Patents protection is a critical part of this type of protective regime, and can be improved through a better-resourced skills base in IP Australia.