

Australian Consumers' Association  
Response to  
Advisory Council On Intellectual Property  
Issues Paper  
Patenting Of Business Systems  
September 2002<sup>1</sup>

The Australian Consumers' Association (ACA) is a not-for-profit, non-party-political organisation established in 1959 to provide consumers with information and advice on goods, services, health and personal finances, and to help maintain and enhance the quality of life for consumers. The ACA is funded primarily through subscriptions to its magazines, fee-for-service testing and related other expert services. Independent from government and industry, it lobbies and campaigns on behalf of consumers to advance their interests.

This response will attempt to deal with the issues as raised in the discussion paper where there is a consumer perspective or issue, and where there is sufficient information for ACA to form a view.

***8.1.1 What is the significance of business system patents to the Australian economy and what are the expected future growth trends?***

To our knowledge, there have not been significant cases or disputes about business system patents in Australia. They do not appear to currently loom large in the statistics of patents registered in Australia and there is some comfort drawn from the notion that perhaps such things were primarily a phenomenon of the Internet Bubble. The fact that electronic commerce is not about to sweep through the lives of consumers in the way that some e-prophets thought it would may diminish the urgency of the issue, but does not in our opinion diminish its significance. As the Ergas committee noted, "service industries generally ... represents a major and increasing part of the Australian economy."<sup>2</sup> Allowing the patenting of business systems focussed in this growing services sector opens a new, 'soft' area of intellectual property, an area where the applicability of patents is stretched and the usefulness of the tool compromised. The consequences of this extension of patent monopoly are significant. Where such erosion of the boundaries may lead is essentially unknowable, but is unlikely to lead to economic benefit or enhanced consumer outcomes. In our opinion, if there is a lull in the drive to expand the patent space, it is a useful opportunity to get this aspect of the IP house in order, before the weaknesses in the system grants further unwarranted monopoly protection.

***8.1.2 What are the likely implications of business system patents on the growth of Australian businesses and the research sector?***

In our opinion it is an interesting reflection on the debate about business system patents that the Discussion Paper does not ask for comment on the impact of business system patents on consumers. Focus on the supply side is perhaps understandable

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<sup>1</sup> ACA File Reference 020093/1

<sup>2</sup> The Ergas Report P151

since patents seem to be construed as a business-to-business matter, but it is abundantly clear to the ACA that there are always serious consumer impacts from monopoly, and this is true for patent monopolies as any other. We feel the Issues paper should have explicitly canvassed the views of respondents on these consumer aspects.

In the opinion of the ACA the most likely implications of such patents for Australian business is to be cost imposition and escalated uncertainty in changing ways of doing business. The notion of patenting soft business systems intrudes patents in a material way into the affairs of small and medium enterprises in a way that does not currently exist. Changes and reorganisations that may be simple good sense and could be carried out internally in good faith might be deemed to breach a patent. Before undertaking any change of business process, would a business need to search the patent literature to be sure that their intentions might not breach a patent? Given the broad nature of some business system patents, assessing this might be no easy matter. Payment of patent fees may seem a way to mitigate risk, but this of course then generates cost imposts, inevitably passed on to consumers.

The flip side of this problem is the diversion of business resources from the business of good management to the pursuit of intellectual property value and protection. This is not the core competency of most businesses and the inept attempt to capture value this way is as likely as not to subvert the actual innovation in question. We are already aware of anecdotal evidence that innovative business ideas have been delayed and sidetracked as IP issues are examined. The innovators have been frustrated by their inability to get on with the business of doing better business while lawyers pick over their proposal for IP loose ends. Management attention and focus is an important corporate resource and it is finite. Diverting it from core business is a risk for any enterprise, but is particularly acute in smaller ones. The result of this dynamic is less efficient industry, which in turn denies the consumer their legitimate share from such savings in a competitive market.

### ***8.1.3 What are the likely implications of business system patents on Australia's export market growth and international competitiveness?***

We are concerned that the processes of international harmonisation might drag Australian IP management into the uncertain and inefficient world of business system patents. We note the Issue as posed in the Paper do not explicitly request views on harmonisation, although significant harmonisation issues are scattered through the discussion. However, this is a core issue for Australia and should be addressed directly. While the principle of harmonisation is an important one, there is not a global consensus on substantive patent matters<sup>3</sup>, let alone on the topic of business system patents. We do not think there is a persuasive argument to say Australia should automatically fall into line with the US position. We note the view of the Ergas Committee that “that effective patent protection facilitates trade in technology, both domestically and internationally”<sup>4</sup>, but consider the emphasis should be on trade

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<sup>3</sup> “Recently, WIPO has discussing the need for a Patent Law Treaty. After long negotiations, it was agreed that for the time being the treaty will not harmonise substantive issues such as the threshold tests of novelty and inventive step but will harmonise mainly administrative issues such as filing procedures.” Ergas Report P141

<sup>4</sup> The Ergas Report P139

“*in technology*”, not services, business models or schemes to get rich. We would endorse a movement toward the EU position, and support a tough test of technical effect to ensure that any patents granted in Australia have a genuine ‘technological’ edge, irrespective of other players.

One of our concerns with business system patents has always been that they will be ‘imported’ into Australia by virtue of expanded Internet trade and the imposition of essentially US terms and conditions on Australian business and consumers. In our view colonisation of our virtual commercial spaces should be a vigorously resisted as if it were on Australian physical territory. Not entertaining such a dubious device in our domestic markets is most likely in our opinion to enhance international competitiveness of Australian business. Therefore it is worrying that some argue it may be necessary to accept such patents in order to retain competitive access to export markets.

### ***8.2.1 Do business system patents encourage innovation and the dissemination of knowledge?***

While potentially subject to long and complex debate, the simple answer from the ACA is “No, business system patents do not necessarily encourage innovation and the dissemination of knowledge.” We are not persuaded that patents in general can be demonstrated to perform this role. In our view, patents can just as easily be seen as a wealth capture mechanism than as a wealth-generating engine. This illustrated in high profile cases such as Antonio Meucci, who invented the telephone as opposed to Alexander Graham Bell who patented it, and Nikola Tesla who invented the radio, not Guglielmo Marconi.<sup>5</sup>

The Issues Paper notes the suggestion that “the last 150 years of US patenting shows four main periods of increased patent activity, each corresponding to the introduction and growth of particular industries.”<sup>6</sup> This notion strays close to the Schumpeterian notion of economies constantly being “disrupted” by technological innovation.<sup>7</sup> The assumption and conventional analysis is that technological change drives economic change. The corollary is that the inventors and innovators who drove this economic change have the right to harness the economic benefits of their invention beyond what they could capture in an open market, and that this will provide other nascent innovators with incentive to move forward. However, an alternative view of economic cycles is provided by the modelling of Jay Forrester and his team at the Sloan School of Management at MIT. “Technology gets implemented in cycles, says Forrester, because there is a window of opportunity at the beginning of each upturn.”<sup>8</sup> This logic applied to patents says that being the successful patent applicant is essentially a matter of luck – being in the right place at the right time. The question of providing monopoly control of the idea has little to do with its emergence into the marketplace, and has even less to do with its successful adoption.

There are countervailing arguments in favour of patents over some other approaches that business may use to extract value from inventions, such as trade secrets, which it

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<sup>5</sup> <http://www.smh.com.au/articles/2002/09/22/1032055035561.html>

<sup>6</sup> IP Australia Issues Paper P.16

<sup>7</sup> Catch the wave Feb 18th 1999 The Economist

<sup>8</sup> <http://www.wholeearthmag.com/ArticleBin/125.html>

is argued diminish even further the velocity of innovation. The Ergas Report mounts a stout defence of patents as opposed to direct social intervention to foster innovation, and comes to the conclusion that “Since no ‘direct method’ of stimulation has yet been found that comes close to matching these effects, calls for a wholesale retreat from patents are poorly based.”<sup>9</sup> However, nothing advanced in the Report amounts to a persuasive argument to extend the regime of patenting into the soft area of business systems. Indeed “On business schemes, the Committee [was] not convinced that this area requires incentives for innovation.”<sup>10</sup> In our view, the patents system should be focussed where it can do least harm. Extending into business systems moves patents into a space that almost exactly maps where they are weak; broad and ill-defined areas of application, pseudo-technical nature, not amenable to secrecy as an alternative.

We certainly argue that the combination of these general reservations about patents with the technologically weak characteristics of business system patents means that the case for them to lead rather than follow innovation is slight, and we see significant jeopardy in allowing businessmen to lock others out of better business methods. The Issue Paper canvasses the argument that “that history shows a pattern of new areas ... being controversial when first patented, but which soon become accepted standards.”<sup>11</sup> In our view, commercial and social structures do adapt to even bad policy, but the general acceptance of a poor structure does not ensure optimal or efficient outcomes. It is instructive, as The Economist did, “to look back 600 years to China, which at that time was the most technologically advanced country in the world. Centuries before the West, it had invented moveable-type printing, the blast furnace and the water-powered spinning machine. By 1400 it had in place many of the innovations that triggered the industrial revolution in Britain in the 18th century. But then its technological progress went into reverse, because its rulers kept such tight control on the new technology that it could not spread. It is a warning that the fruits of the IT revolution should not be taken for granted.”<sup>12</sup> It would be unwise in our view to entrench monopoly restraint on business management, an area of endeavour that should be characterised by adaptive response.

### ***8.2.2 Are there fundamental business processes which, if patented, could inhibit innovation or impose significant costs on third parties, or is it likely that the development of alternative business systems would be encouraged?***

In our view, fundamental business processes should not be available for patent. If it were obvious that such a system existed, then one would expect that it would be difficult to patent. Businesses usually seek to improve their operations as a matter of course, and few do so by the application of research and development operations that would respond to patent style incentives. The emergence of a better way of doing business is usually highly dependent on circumstances and the factors cited in the Issue Paper such as lead times, network effects, customer loyalty, business structure and culture. It is a misconstruction of patenting to apply it to business processes or systems that lack an essential technological underpinning. Any move to interfere with open market access to connectivity and open standards in particular will subvert the development of the network economy. Fundamental business processes are likely to

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<sup>9</sup> The Ergas Report P143

<sup>10</sup> The Ergas Report P153

<sup>11</sup> IP Australia Issues Paper P.17

<sup>12</sup> Untangling e-economics September 23rd 2000 The Economist

be broad in scope and pervasive in their effect. In the opinion of the Ergas Committee, patent inhibition of innovation is most “likely to occur only when the scope of the patent is broad.”<sup>13</sup>

**8.2.3 *What are the implications of business system patents on Australian industry generally? Are business system patents likely to inhibit growth in the market place?***

Answered above.

General implications of business system patents – negative.

Business system patents are likely to inhibit growth and produce consumer detriment.

**8.3.1 *Does current Australian patent legislation and practice in relation to business system patents provide an appropriate balance between innovation, access to technology and economic growth?***

The current legal framework seems to provide complexity and uncertainty around the issue of business system patents. The absence of a test of technical implementation leaves the Australian system vulnerable to exploitation by the patenting of all manner of ‘systems’. We are not convinced this would be a benefit to the Australian economy or to Australian consumers.

The key uncertainty as to what is patentable is the fundamental test of patentability set by the High Court as “a mode or manner of achieving an end result which is an artificially created state of affairs of utility in the field of economic endeavour”.<sup>14</sup> While most submissions to the Ergas Committee “argued for retention of the current Australian definition”<sup>15</sup>, we are not convinced the consumer interest is embodied in that consensus. The proponents of IP as a wealth engine are no doubt happy to see the blanket of patenting spread over increasingly large parts of everyday commercial life – indeed as the Ergas Committee noted, “there has been an inexorable expansion over time in what is regarded as a ‘manner of manufacture’ in Australia.”<sup>16</sup> We are not confident that the High Court test is sufficiently rigorous to stop the encroachment that business system patenting presents.

We note the enthusiasm of the Ergas Committee for patents is seriously qualified by the necessity for patents to be granted for real innovations. This is stated a number of times in their report, perhaps most forcefully when they state:

The Committee therefore attaches great importance to ensuring that patents are granted when and only when they meet the statutory pre-conditions. We note that this will ensure that patents that are granted are known to be, strong, certain and enforceable. This approach will therefore reduce the uncertainty involved in patent enforcement and increase the value of those inventions that legitimately attract the benefit of patent protection. It will also further enhance the incentive for innovation associated with the patent system.<sup>17</sup>

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<sup>13</sup> The Ergas Report P138

<sup>14</sup> 1959 High Court of Australia decision of *National Research and Development Corporation v. Commissioner of Patents (NRDC)* cited Issues Paper P10

<sup>15</sup> The Ergas Report P148

<sup>16</sup> The Ergas Report P147

<sup>17</sup> The Ergas Report P165

In other words, the integrity of the patent system depends on granting viable patents. The Committee makes the pointed observation that it is “convinced that Australia would gain from ensuring, to a greater degree than is currently the case, that patents are not granted where it is likely that reasonable threshold tests for securing a valid patent will not be met.”<sup>18</sup> It is the submission of the ACA that business process patents would violate this requirement and thus threaten the integrity of the patent system. However, as noted above, we are not confident the current legal test is an adequate test to defend this integrity. We would endorse the findings of the Ergas Committee in this context that “the ‘benefit of the doubt’ currently given by examiners to applicants be changed to ‘balance of probabilities’; and that applicants have greater responsibility to disclose any prior art known to them up until acceptance.”<sup>19</sup>

The way the issue is stated implies a trade-off between the factors listed ‘innovation, access to technology and economic growth.’ In our view, they are synergistic rather than in opposition. The patent balance is between the grant of monopoly exploitation rights (inhibited competition) and an increase in innovation, publicly shared. The notion of balance is required only when the assumption is made that patents (the grant of a monopoly right to the fruits of an innovation) somehow leads to innovation. As stated above, we are not convinced this is the case for patents generally and certainly not for business system patents.

### ***8.3.2 Should Australia include technical implementation as a requirement for patentability?***

The Ergas Committee weighed the case for and against a more prescriptive patents test and came down to a recommendation in favour of retaining the current ‘open-textured standard’<sup>20</sup>. We do not agree with this recommendation. There is a fundamental problem in dealing with a necessity for patents to have a technical basis in a technologically non-specific way. The “extremely complicated, technical and artificial distinctions about what is and is not patentable”<sup>21</sup> alluded to in the Telstra submission to the Committee are not best dealt with by deciding that everything that may be touched by the hand of commerce is potentially patentable. Technology neutrality has much to recommend it in policy development, but it does not assist in setting a boundary to contain patents where they best belong, and to stop the ‘inexorable creep’ identified above. The ACA does not think Australia should allow the patenting of business systems. We do not regard business systems as a technology, and therefore do not consider that there is a TRIPS requirement to extend patent protection in that direction. In that sense we would support a test for ‘technical implementation’ to establish a clear demarcation of what would qualify as a technology and what would be a process or system. It should be clear that the test is designed to ensure that systems without a clear, specific and explicit technical embodiment will not be patentable. A patentable advance must do more than *use* a technology it must *be* a technology.

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<sup>18</sup> The Ergas Report P143

<sup>19</sup> The Ergas Report P10

<sup>20</sup> The Ergas Report P149

<sup>21</sup> The Ergas Report P148

**8.3.3 *What is the anticipated impact of the patent legislative changes, introduced in April 2002, which aim to increase the presumption of validity of granted patents?***

It is unknown to us whether these changes will have any impact on the question of business system patents, except that any such patents slipping past the standard tests will have even greater force in the marketplace.

**8.3.4 *Is the Ergas report correct in stating that most business methods would fail the standard tests of patentability?***

It is not clear to us that it can be taken for granted that ‘most business methods would fail the standard tests of patentability’ given the state of Australian patent law as outlined in the Issues Paper. In any event the chilling effect of even possible patentability means that in our view, clarification using a test for technical implementation is important. From the consumer perspective there is no particular virtue in allowing uncertainty to persist in the hope that case law and patent examiners will fine-tune an imperfect situation. The case for business system patents, as a concept, has not been made irrespective of whether individual cases can be manoeuvred through the current set of rules.

The Ergas Report commented on the inexorable trend towards broader definitions of patentable matters, demonstrating that:

There has been significant shift in Australian case law away from the need for an invention to be one that ‘results in a material product of some substantial character’ to one that ‘results in an artificially created state of affairs of utility in a field of economic endeavour’.<sup>22</sup>

Therefore, the patents game is played on a field with moving goal posts. In our opinion it seems very likely that the Courts will move the goal posts even further apart in time, and allow business process patents to score with increasing frequency. Indeed this is a concern on a general basis, given the controversies in genetics and pharmaceuticals, as well as those foreshadowed for nano and other convergent technologies (see 8.3.5). Greater certainty in defining and determining the boundaries for patents is essential as argued above.

It is important to note the full context of the Ergas assertion; both the general insistence of the Report that patents must be for ‘real innovations’ and the necessity of strict scrutiny of patents. The full assertion is importantly qualified by the recommendations of the Committee and this need for diligent examination of applications. The Committee said:

However, we believe that no additional specific recommendations for business schemes are needed since most will not pass the general tests for patent grant, particularly if these tests are modified as recommended by the Committee and stringently applied.<sup>23</sup>

These caveats must not be stripped from their observation, and must be married with the context of uncertainty about the current and future admissibility of increasing soft technologies.

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<sup>22</sup> The Ergas Report P151

<sup>23</sup> The Ergas Report P153

### 8.3.5 *Should there be special patent procedures for processing business system patents?*

In our view, setting up special procedures for business system patents would accord them a prominence and importance that they do not deserve. What is required is a clear boundary that indicates what is patentable, using a technical implementation test. The patent examination system should then be experienced and flexible enough to apply the required tests for novelty and to find the appropriate prior art for the field. One of the lessons of business system patents, seems to be that when a new area is opening up, particularly one that challenges the existing structures, the Patents Office is one of the gatekeepers to value, and needs to react with the speed, diligence and flexibility required of a significant market player.

It seems that similar challenges as exist in the business systems area may also arise in emerging fields such as nanotechnology and other convergent domains which:

refers to the synergistic combination of four major “NBIC” (nano-bio-info-cogno) provinces of science and technology, each of which is currently progressing at a rapid rate: (a) nanoscience and nanotechnology; (b) biotechnology and biomedicine, including genetic engineering; (c) information technology, including advanced computing and communications; and, (d) cognitive science, including cognitive neuroscience.<sup>24</sup>

In the medium term, with such developments “The fear lies where potentially devastating effects of being excluded from a market because of a rival’s over-broad patent means extra expense for companies who could do without it.”<sup>25</sup> These interdisciplinary style developments will stretch the capabilities and capacities of patent offices. This convergent context, because of the synergy and overlaps of the fields, will maximise and reinforce the difficulties of:

- Overly broad patents
- Further widening of the patents universe
- Less than rigorous examination of new and complex applications
- Difficulty in anticipating and capturing unintended consequences
- Focussing patents usefully and appropriately

This will emerge in ways that may well make the patent disputes over software, genes, pharmaceuticals and business systems look trivial.

With the development of ever more sophisticated technologies down this track there is the prospect of machines that can assemble other molecules into useful objects. The vision is that “Companies would license the molecular blueprints for their product, whether it’s dish liquid or a TV set, to anyone with a microassembler.”<sup>26</sup> In this context we have the challenge of everyday items such as bread or cheese being potentially patentable. This would turn the patent system full circle to the Tudor expedient of granting monopolies on everyday necessities such as salt. Fortunately such extremities constitute little more than a thought experiment at present, but they serve to illustrate that challenges to patents and their role in managing wealth and value in society are far from over. In this context it is worth sharing the note by the Ergas Committee “that the Statute of Monopolies, still referred to in the definition of

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<sup>24</sup> [http://itri.loyola.edu/ConvergingTechnologies/Report/NBIC\\_overview.pdf](http://itri.loyola.edu/ConvergingTechnologies/Report/NBIC_overview.pdf) P1

<sup>25</sup> [http://www.derwent.com/ipmatters/features/aug2002\\_nanotech.html](http://www.derwent.com/ipmatters/features/aug2002_nanotech.html)

<sup>26</sup> [http://www.profitguide.com/20th/issues\\_article.asp?ID=928](http://www.profitguide.com/20th/issues_article.asp?ID=928)

manner of manufacture in s. 18(1) (a) of the Act, was originally promulgated to stop abuses of exclusive franchises in business lines such as trading cards, alehouses and various staple products.”<sup>27</sup>

***8.3.6 Should business systems be considered to be within a "field of technology" as referred to in s27 of the TRIPS agreement?***

As outlined above, the ACA does not believe business systems should be regarded as within a "field of technology". As a consequence Australia would not be in breach of TRIPS requirements to refuse such systems patent monopolies.

***8.3.7 Is the 20 year term of a standard patent grant appropriate for business systems, or would the 8 year term of an innovation patent be more appropriate?***

Consistent with our remarks above, business systems should not be accorded any special status within the patent system, apart from the general prohibition on non-technical systems. The choice of term is something that should be part of the ‘menu of incentive contracts’<sup>28</sup> offered to patent applicants who meet the necessary rigorous threshold screening for patentability.

***8.3.8 through 8.3.11***

The ACA has no specific information to offer on these items

***8.4.1 Are Australian businesses properly equipped to deal with business system patents?***

In the view of the ACA, not only is Australian business relatively poorly equipped to deal with business system patents, it would be an impost on business and a detriment to consumers to expect them to manage an exposure of everyday business change and innovation to the rigours of the patent system, both in terms of trying to protect their innovations from poaching (particularly the patenting of other of their techniques) and from infringing soft patents. The process of ‘properly’ equipping business to jump through this particular hoop would certainly not be without cost. For some lucky companies, it might confer on them a monopoly they would not have otherwise had the opportunity to exploit, however for most it would be sterile exercise in risk shifting and avoidance. In any event, consumers would be paying increased costs for innovation that would probably have occurred in any event, if innovation is indeed what we can call some of the dubious practices such as customer segmentation, contractual manipulations and intrusive selling practices that some might characterise as business advances.

***8.4.2 Are there sufficient information and search facilities available to assist the Australian public seeking to protect their intellectual property or avoid infringement? If not, what facilities should be instituted?***

In terms of general public confidence in the patent system, if it is seen to degenerate into a haunt of rent seekers and lazy exploiters of monopoly, then there will be very

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<sup>27</sup> The Ergas Report P153

<sup>28</sup> The Ergas Report P144

proper agitation for reform. It is important that the system does not foster a diversion of resources away from other productive investment, delivery of value for consumers, or indeed innovation, by fostering a risk averse culture of risk management, rent monitoring, infringement evasion, and disputation, all ultimately combining to produce a cost structure of no particular benefit to business or consumers.

#### ***8.4.2 How should issues of jurisdiction with respect to business system patents be dealt with?***

As consumers seeking protection of their consumer rights in the context of global e-commerce have found, there is no easy solution to the issue of jurisdiction, spanning issues of choice of law, forum for disputes etc. Certainly the world community of governments has been far more diligent and rigorous in the matter of intellectual property than consumer rights. The asymmetry has not gone unremarked, and is part of the disrepute that the intellectual property management regime risks if it proceeds with initiatives that are counter-intuitive to the expectations and aspirations of ordinary consumers, however noble such things may sound in internationally harmonised forums dominated by the interests of large corporate holders of intellectual property portfolios.

#### ***Conclusion***

Seeking to educate people about their so-called obligations not to infringe patents and trying to get them to seek intellectual property rights in every utterance they make will not create respect for monopoly rights. The notion that patents exist to reward, foster and generate innovation is rarely examined among the IP cognoscenti. Of course it is very useful for patent holders to have this rationale. A patent confers a monopoly right on the holder. A naked monopoly is generally a very unattractive thing, so it requires dressing. A virtuous contribution to the well being of the whole community, by way of the jobs, consumption, and prosperity held to flow from innovation, is a becoming and beguiling outfit. So much so that the monopoly can scarcely be seen. What is glimpsed conforms to expectations of modesty. However it is quite possible to see patents not as a mechanism to produce the innovations, but as one that captures the benefits of innovation, once they have occurred. If the link between innovation and patenting is reversed, then suddenly the monopoly has no clothes.