

Australian Council on Intellectual Property (ACIP)

Issues Paper of July 2002 on Patenting of Business Systems (*the Issues Paper*).

1. Summary of the Position of the Intellectual Property Committee of the Business Law Section of the Law Council of Australia ('the Committee')

- 1.1 The Committee accepts that there is substantial debate on whether business systems should be patentable. The Committee observes that patentability is a flexible concept which has been applied successfully by the Australian Patent Office and courts over many decades. By the application of the now long-established test of patentability, proper subjects of patenting have been identified and distinguished from those that are not, notwithstanding dramatic changes in the subjects put forward for patent protection.
- 1.2 The Committee is confident that the established test of patentability, if properly applied, provides the appropriate standard for excluding from patent protection business systems that are unworthy of that protection.
- 1.3 The Committee is not aware of any justification based on actual negative effects from the patenting of business systems that would support excluding them from being patented. No such effects are proven in the information raised by ACIP in the Issues Paper.
- 1.4 The Committee recommends that Examiners of applications for the grant of patents relating to business systems should require applicants to provide objective data defining the state of the art in support of those applications, as part of the process by which the applicant is required to establish on the balance of probabilities that the subject is patentable. This would not require any amendment to the Patents Act and could be dealt with in the Examiners' Manual.
- 1.5 The Committee recognises that the requirement referred to in the previous sub-paragraph could mean that where there are commercial databases describing business systems, Examiners may not be persuaded on patentability unless results of relevant searches of such databases are provided by the applicant. This would be in addition to searches of patent databases and such other information as Examiners usually require in the ordinary course of processing applications.

2. The Issues Paper

2.1 Central Theme of the Issues Paper

The Executive Summary outlines the cause of ACIP's inquiry into this subject as follows.

"There is considerable debate as to desirability of the business system or business method patents including whether they should be excluded from the patent system. Proponents of the business system patent argue that an exclusion is unjust and that business innovators merit reward for their labours no less than that offered to other inventors.

Supporters of the exclusion claim that business system patents are too abstract to enable the law to limit the patent monopoly so as to properly balance rewards for innovation and the demands of free competition. They claim that the social costs of

business system patents are higher than for other patents as they stifle competition by directly restraining conduct of competitors, they create barriers to entry and they may impose crippling multiple royalty fees on businesses. Furthermore, supporters of the exclusion argue that patents are unnecessary as incentives for the development of business systems. Proponents of the exclusion question whether overall social welfare would be increased by patenting of business systems and some suggest that such patents have inhibited innovation in certain fields, most notably, the software industry.”

2.2 Australian Government reference to ACIP

In relation to this matter, ACIP reports as follows in its Executive Summary.

In response to the various concerns raised, the government has requested that ACIP examine the issue, and, within the constraints of Australia’s international obligations, propose policy options that best meet Australia’s national interest and the needs of stakeholders.

2.3 Purpose of the ACIP Paper

ACIP has stated that the purpose of its paper is to stimulate public debate on the issues which ACIP states have been grouped into four main areas as follows:

- The economic and intellectual property significance of business systems.
- Whether business system patents encourage innovation and the dissemination of knowledge.
- The appropriateness of Australian patent laws and practices.
- Public awareness and confidence in the patent system.

3. The standing of the Committee in responding to ACIP’s invitation to submit written comments.

- 3.1** The members of the Committee who have contributed to these submissions are lawyers who have practised extensively in Australia in prosecuting and opposing patentability of applications made for the grant of patents or in relation to patents over a huge range of subjects, including business systems.
- 3.2** The Committee’s position is strongly influenced by the way in which the courts in Australia have dealt with issues of patentability over many decades. They note that there have been numerous challenges to patentability in the history of Australian case law. They further note that overall the courts have satisfactorily adapted the test of patentability to rule in and out subjects deserving and non-deserving of patents, respectively.
- 3.3** In 6.2.4 of the Issues Paper, ACIP describes the current position of the test of patentability in relation to business systems. ACIP refers to possible doubt around the NRDC requirement of an “artificially created state of affairs” having little practical effect in relation to business systems. Whether that is correct or not, is presently a moot point and whatever view is expressed on it is per force theoretical. The Committee considers that moot or theoretical points are an unreliable basis for recommending changes in the law. Such points (moot or theoretical) occur all the time across the whole spectrum of Australian law. They are often ironed out satisfactorily by decisions made on a case by case basis by
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courts. That process also has an important role in identifying whether there is in fact a real need for legislative solutions.

- 3.4** The Committee notes that ACIP seeks debate on economic aspects of the patenting of business systems. For example, in its Executive Summary, ACIP describes the views of (unidentified) ‘supporters’ of the exclusion of business system patents as claiming that such patents are -

“... too abstract to enable the law to limit the patent monopoly so as to properly balance rewards for innovation and the demands of free competition.

They claim that the social costs of business system patents are higher...

... they stifle competition by directly restraining conduct of competitors,...

... they create barriers to entry...

... they may impose crippling multiple royalty fees on businesses.

... (such) patents are unnecessary as incentives for the development of business systems...”

These and topics like the economic significance of business systems are, the Committee notes, ones for those qualified in economics but subject to an important rider. Reliable findings on economic grounds require proof of actual adverse economic effects rather than theories. The Committee does not accept and submits that ACIP and the government should not accept, that there is any basis to treat business systems patenting differently from other subjects of patents absent hard evidence of the need to do so. Taking each of the topics of predicted adverse economic effects raised in the Executive Summary as quoted above, **where is the proof that any of those asserted adverse economic effects is actual and if actual, is of such magnitude as to require amending the Patents Act in some way to deal with it?**

4. Particular matters considered by the Committee

- 4.1 Members of the Committee have considered (among others) two particular issues as follows. In each case the point raised has been rejected in favour of relying upon the due application of patent law by the Patent Office and the courts to determine patentability of applications made or patents granted in relation to business systems.
- 4.2 The first issue was whether there will not be in the case of business systems difficulties for the Patent Office in identifying the relevant prior art and if that occurs, whether it might not lead to the Patent Office granting patents falling short of the proper standard of inventiveness. The Committee observes that there is no evidence of that problem having arisen. ACIP cites examples of business systems patents in 4.2 of the Issues Paper but ACIP does not refer to actual complaints by parties to litigation or observations by courts that these putative ‘difficulties’ have led to the granting of invalid patents. More than that, there would have to be evidence that such ‘difficulties’ that had occurred were out of proportion to those of the same nature that ordinarily occur in assessing patentability.
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4.3 The second issue was whether there is a lack of certainty as to what is patentable and allied to that, what subjects will be truly enforceable. In relation to that, The Committee has considered whether some form of definition of a patentable business system would be desirable. However, the Committee has concluded that there is no more uncertainty in relation to whether business systems as a class are patentable or enforceable than there is in relation to many other subjects. In other words, this issue cannot be dealt with properly, as a generality. Each case depends upon its own circumstances and when those circumstances are known, there is usually less cause for uncertainty and certainly no present reason to treat business systems differently from other subjects on the issue of patentability. Further, the Committee notes, attempts to define what subjects might be patentable as 'business systems' is likely in itself to be a cause of uncertainty. The flexibility of the current definition of patentability allows appropriate latitude for courts to decide patentability in the light of particular proven circumstances, in the view of the Committee. In the past where patentability has been tested in new areas of technology, it has not been necessary to have special definitions to sort out patentability.

5. Statement of Committee's Position

5.1 The Committee accepts that there has been very substantial debate both oral and in writing as to whether business systems should be patentable. That debate is and will remain inconclusive until there is hard evidence of the actual effects of patenting business systems whether positive or negative, or both.

5.2 The Committee observes that it is one thing to theorise about lack of need for business system patents and potential negative effects of the granting of limited exclusive rights (patents) to business systems and another thing to draw substantial conclusions leading to non-patentability of business systems when there is no actual evidence of negative effects of such magnitude as to require legislative change.

5.3 The test for patentability under the Australian law has not changed by reason of the application of the patent law to business systems or putting it another way, by the making of applications for the grant of patents in respect of business systems. To be patentable, the subject must be an artificial effect contributing a useful advance over the prior art and otherwise pass the usual tests on novelty, obviousness and the patent regulatory requirements.

5.4 The Committee has considered what applies in relation to business system patenting in Australia - that is, it has asked - what matters can be reliably established around this topic? The Committee submits that reliance on the following matters is reasonable.

- (1) Any application for the grant of a patent for a business system, is going to have to pass the established test of patentability.
 - (2) Patentability will be for the devisers of new business systems, a powerful incentive to innovate for the same reason as applies in other fields - the limited exclusive rights which will be granted by patenting will provide limited protection from competition in relation to the subject itself (but not from other business systems that compete). The grant of such patents may be the difference between being able to develop them so that they can be exploited rather than let them fail, just as occurs in relation to other patented subjects.
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- (3) In the concerns expressed in the ACIP paper (by questions, assertions of particular points of view or the raising of theories), the economic concept that patenting fosters competition seems to have been forgotten. If the subject of a business system patent created a useful advance in the conduct of business, why would not that cause others to invent other advances to compete better with that subject?
- (4) The level of patenting of business systems in Australia is not out of proportion to patents granted in applications in other fields.

The number of granted patents rose from a hand full in 1995 to 61 in 2000 then drop to 46 in 2001.

(See paragraph 4 of Section 5 of the Issues Paper).

- (5) The negative criticisms of business system patenting suggested for consideration in the ACIP paper (see paragraph 3.4 above) are equally capable in varying degrees of being asserted against the granting of patents in fields other than business systems. Accordingly, there is no reason to treat business systems as a special case on that account.
 - (6) It will be damaging to the perceived equity of the patents system if decisions are made that business systems are not patentable unless there is proven justification for treating innovative business systems differently from other subjects of innovation that pass the test of patentability. There is no compelling evidence which would justify such action at this stage.
 - (7) The application of the existing requirement of patentability is preferable to ad hoc decisions amending the patent law or sui generis treatment of 'business systems'.
 - (8) The Commissioner of Patents should on reasonable grounds be able to require applicants to provide such information as is reasonably available, to satisfy Examiners on the balance of probabilities that the subject of the application is patentable. Such information could include data available on commercial databases of business systems.
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