

ADVISORY COUNCIL ON INTELLECTUAL PROPERTY

PATENTING OF BUSINESS SYSTEMS

Response to Issues Paper of July 2002

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

There is significant interest in business system patents in Australia. Developers in the Information and Communications Technology (ICT) industry have been favourably disposed to the prospect of being able to secure protection for inventive business processes that they develop. There is general acceptance that patent law provides the best level of protection for their innovative products, and that copyright law and the law related to confidential information are inadequate. At present, the level of activity is static.

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

The availability of business system patents to Australian businesses and the Australian research sector has encouraged the development of new businesses in Australia, as opposed to the development of those businesses only overseas. Australian developers have used Australian patent law to provide them with initial protection in Australia to develop and improve their business locally before taking their new product to a larger market overseas. Australian patent protection is considerably less expensive than protection in other markets, such as the US, and this has allowed local developers to establish protection here first during a period of business development, and delay securing protection overseas using the provisions of the applicable International Convention or Treaty. Being able to secure protection in Australia also assists developers obtaining investment funds, particularly venture capital. If developers were precluded from being able to obtain business system patents in Australia, then this would likely result in developers securing protection where it is available, such as in the US, and then developing their businesses in those jurisdictions first. This may result in Australia being neglected entirely.

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

The availability of business system patents in Australia has significantly assisted our export market growth and international competitiveness. By securing protection first for developments in Australia, the developments are market tested first in Australia, at a reduced start-up cost, and once proven in our domestic market, the development is taken to an overseas market where similar patent protection is afforded. The message received from overseas markets, such as the US, is that the ability to secure investment capital and achieve market success is heavily dependent on being able to show that the product has been successful in the domestic market and patent

protection has been diligently sought for the development¹. In fact studies have shown that patents for the ICT industry have significantly helped the growth of the industry².

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

The disclosure and publication requirements of the patent system encourages the dissemination of knowledge concerning business system developments, and allows developers to pursue innovations based on that dissemination. If patent protection is not available, then developers will attempt to keep innovations secret, and this discourages the sharing of information. This is particularly acute in the finance industry and segments of the communications industry, where processes are executed by back-end systems which can be protected to some extent by restricted access and publication. The availability of patent protection for these processes forces developers to disclose information on the processes in a patent specification. In Silicon Valley, the published patent literature is a regularly used tool to determine competitor activity and plan future developments.

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?*

Business system patents have been granted in Australia for a number of years. There is no evidence of any patenting of fundamental processes that have inhibited innovation or imposed significant costs on third parties in Australia.

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?*

To date the only implications on Australian industry of business system patents has been the implications discussed in the responses to questions 8.1.1 to 8.1.3, ie the encouragement of innovation and the assistance that is provided to developing an export market. There is no evidence that business system patents are likely to inhibit growth in the market place, particularly as over the years there is no evidence of this occurring, and in fact the contrary has occurred.

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?*

Assuming current Australian patent legislation and practice is applied to business system patents in the same manner as it is applied to any other field of technology, and assuming this legislation and practice provides an appropriate balance for all

¹ Consider: Kirby J, "Our way or no way, OK?", BRW, 13 July 2001, page 66.

² Commission of the European Communities, "Proposal for a Directive of the European Parliament and of the Council on the Patentability of Computer-Implemented Inventions", 2002/0047, 20 February 2002, page 5; Jones M, "Patents and the Software Industry - Commercial Perspectives", Intellectual Property Forum, June 1999; Rivette KG and Kline D, "Discovering New Value in Intellectual Property", Harvard Business Review, Jan-Feb 2000, page 54.

other technologies, then it cannot be argued that an appropriate balance does not exist in relation to business system patents. There is no logical argument that can be sustained for treating business system patents different from patents for any other technologies. Controversy has always surrounded patent protection for new emerging technologies, but over time this controversy has always subsided³. It must be remembered that the primary reason why the legislation refers to s.6 of the 1623 Statute of Monopolies is to adopt the principles established in the widely respected decision of the High Court in *NRDC*⁴. The court made it clear that any attempt to circumscribe or define what constitutes patentable subject matter was foolish:

"To attempt to place upon the idea the fetters of an exact verbal formula could never have been sound. It would be unsound to the point of folly to attempt to do so now⁵."

The soundness of this judgement is highlighted by the difficulties the express exclusions in the European Patent Convention have caused in Europe⁶. Even the definition of a business system proposed by IPRIA illustrates the difficulties. If this was used as a basis for an exclusion, the patentability of an inventive computer process would depend on the type of data it operated on. For example, a unique process operating on image data representing an atmospheric condition may be patentable but the same process operating on image data representing financial or management information would not.

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

No. If it did so it would be beset by the uncertainty that currently plagues the obtaining of patents for ICT developments in Europe. The "technical" requirement in Europe is not even part of the Articles of the EPC. It is a requirement that has developed in case law solely in an attempt to avoid the express exclusions included in Article 52, and has been gleaned from disclosure requirements in the EPC Rules. It is unlikely the requirement would have ever developed in European case law if the Article 52 exclusion to computer programs was not present. The requirement is beset with problems to the extent that there is no clear determination as to what is meant by "technical"⁷. Whether or not a patent is awarded depends on the quality of the patent drafting, rather than on the quality of the invention itself⁸. In any event, *NRDC* makes a clear distinction between industrial, commercial or trading processes that are part of the useful arts and are susceptible to patent protection, as opposed to processes that belong to the fine arts⁹. *NRDC* also makes a number of references to a requirement that a patent or process or product must have economic significance and provide a new and useful effect¹⁰.

³ Poynder R, "*The Battle Over E-commerce Patents Heats Up*", IP Magazine, November 1999.

⁴ *National Research Development Corporation and Commissioner of Patents* (1959) 102 CLR 252.

⁵ *Ibid*, at 271.

⁶ Laakkonen & Whaite, "*The EPO Leads the Way but Where To?*" [2001] EIPR 244; Beresford K, "*Patenting Software Under the European Patent Convention*", Sweet & Maxwell, 2000, ISBN 0 752 006339.

⁷ PBS Partnership, Board of Appeals EPO, (2000) T 931/95, page 16.

⁸ Beresford, n6, paras 2.01 and 9.62.

⁹ *Supra*, n4, at 275.

¹⁰ *Ibid*, at 275 to 277.

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?*

The changes should greatly assist Examiners in being able to sustain valid arguments that a development fails to meet the inventive step requirements. Lack of invention is the correct basis on which to refuse patent protection for a business system development. The Australian patent system, unlike in the US or Europe, also allows third parties to oppose the grant of an Australian patent after acceptance of an application. An innovation patent can also be opposed by a third party at any time. These opposition procedures can be brought before the Patent Office, and an interested party does not have to incur the cost of seeking redress before a court.

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

Developments should each be assessed on their individual merits. Whether the statement is correct depends entirely upon the level of inventiveness of the developments for which patent protection is sought, ie the extent to which they meet the inventive step requirements.

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

No. There is no justification for applying any different procedures for business systems, as opposed to other technologies.

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

The answer to this question depends entirely upon the definition adopted for the term "technology". If a business process is executed by a computer program or using an ICT system, then it is considered this clearly belongs to a field of technology. If the entire process can be executed without the use of a machine or ICT equipment, then the answer is debatable. Companies and individuals who specialise in business analysis and financial analysis often exploit complex and scientific based processes that are readily considered as being technology for the analysis industry.

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?*

There is no general correct answer to this question. For each individual development a different term may be appropriate. With regard to the 20 year term, it is noted that the requirement for payment of annual fees to maintain the term means that inevitably a number of standard patents have terms that are considerably shorter than 20 years. This contrasts dramatically with the term of protection afforded for copyright works, ie the life of the author plus 50 years.

8.3.8 *Are business system patents being assessed within an appropriate timeframe?*

Yes, given that the Australian patent process is flexible and allows for early grant of patents, particularly innovation patents, when necessary.

8.3.9 *Are granted business system patents of sufficient quality? Is the standard for inventive step being correctly applied?*

Again, this is a question that cannot be answered generally. It is considered however that a more rigorous examination, such as will be allowed by virtue of the changes introduced in April 2002, will greatly assist the level of respect afforded to the Australian patent system.

8.3.10 *Do Australian patent Examiners have appropriate training and expertise to assess business system patents? Are more resources warranted?*

There is no doubt that more examination resources are warranted to ensure the Australian Patent Office is not beset with the criticism levied at the US Patent and Trademark Office some years ago. Consideration needs to be given to introducing all of the new or expanded measures advocated in the US *Business Methods White Paper*¹¹.

8.3.11 *Is IP Australia making appropriate use of non-patent literature? Should more active sharing of information with other offices be explored?*

It is our understanding that IP Australia has already taken steps to provide greater access to non-patent literature and to share information with other Patent Offices.

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

To the extent that Australian businesses are equipped to deal with patents in general, then they are equally equipped to deal with business system patents.

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?*

It is imperative that simple and comprehensive research tools are provided to the Australian public for searching the published Australian patent literature. This applies not to just the business system patents, but to all patents. IP Australia needs to devote resources to ensure that full text searches are available across all published patent specifications.

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

Any issues of jurisdiction should be dealt with in the same manner as they are for patents for all technologies.

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¹¹ *Business Method White Paper*, USPTO, 29 March 2000, <http://www.uspto.gov/web/menu/busmethp/index.html> In particular access should be given to the extensive list of non-patent literature core databases given at <http://www.uspto.gov/web/menu/busmethp/figurenpl.htm>