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Ms Kay Collins
Secretary
ACIP
PO Box 200
Woden ACT 2606

Dear Madam,

Re: Issues Paper on “Patenting of Business Systems”.

1. I am writing in response to the invitation for written comments in respect of the above which was received by me via IPTA on 31 July 2002.

Background

2. In my opinion, Australia has possibly one of the best definitions for statutory subject matter for patentability in the world. That definition, derived from case law maybe expressed as follows:

“An artificially created state of affairs of utility in a field of economic endeavour”.

3. The definition was proposed in the High Court decision in *NRDC (1959) 102CLR252* and has been upheld and interpreted, particularly in light of computer related inventions in the decisions of *IBM v. Commissioner of Patent (1991) 22 IPR 417*, and more recently *Welcome Real-Time v. Catuity (2000) FCA 445*.
4. I have heard from members of the public that Australia has been somewhat slow in its acceptance of the patentability of computer related invention and the like. This may have been the case through the 1980's, but such was certainly changed with the decisions in *IBM* and also *CCOM v. Jiejing (1994) 28 IPR 481*.
5. It has also been said that the United States decision in *State Street v. Signature 149 F 3d 1368 (1998)* was something of a watershed for the patentability of business methods on the international scene and that Australia has since followed in kind. With respect, such an observation is not entirely accurate. In particular, part of the *ratio desidendi* of the *State Street* decision was founded upon the clear distinction between consideration of issues of statutory subject matter under 35 USC 101 and

issues of novelty and obviousness (inventive step) under 35 USC 102 and 35 USC 103 respectively. The court said:

“Whether the patent’s claims are too broad to be patentable is not to be judged under Section 101 (statutory subject matter), but rather under Sections 102 (lack of novelty), 103 (obviousness) and 112 (insufficiency). Assuming the above statement to be correct, it has nothing to do with whether what is claimed is statutory subject matter”.

6. It is noted that 35 USC 112 is generally equivalent to Section 40 of the Australian Patents Act 1990. The other part of the *ratio* was the reversing of the ill-founded practice of the USPTO excluding business methods from patentability.
7. The 1998 decision of *State Street* in fact reiterated the 1994 decision of the Australian Federal Court in *CCOM*, where the court said:

“It may be that such a claims lacks novelty, is obvious or lacks utility, or there is a failure to comply with one or other of the limbs of section 40 because, for example, the invention is not fully described or the claim is not clear and succinct. But if such hurdles are all surmounted, then in our opinion in the case such as the present there does not remain an independent ground of objection as to patentability, within the sense of paragraph 18(1)(a) of the 1990 Act” (ie. the statutory subject matter)

8. Further, the current practice of the Australian Patent Office with respect to business method inventions was first promulgated in amendments to the “Manual of Practice and Procedure-Volume 2 National” (the “Examiner’s Manual”) in 1999 in response to the *State Street* decision. That change in practice by the Australian Patent Office was, with respect not founded upon the *State Street* decision, but merely prompted thereby. The foundation for the change in practice arose from the 1991 implemented amendments to the Australian Patents Act and Section 18(2) by which, for the first time, the Australian Parliament identified an exception to patentability, relating to human beings and their biological processes for generation. In considering that change in legislation in 1999, and in light of the *State Street* decision, the Patent Office interpreted that as the parliament had sought to define what was not patentable, anything else may be considered to be patentable subject matter. Like the United States, there was no statutory exclusion to business methods in Australia. This, in my opinion, was a sound and just change of practice.
9. I feel that such a liberal practical approach, in combination with the generality of the present definition, provides a basis for the community to establish the scope of patentable subject matter, within the confines of court decisions, and without legislative interference.

The Situation Overseas

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10. The consideration of computer implemented inventions differs in major jurisdictions such as the United States, Europe and Japan. The United States essentially has no restrictions on statutory subject matter and it has been stated that “anything under the sun” should be patentable. In Europe, the proposed directive on computer-related inventions seeks to enshrine the current European practice of requiring a “technical contribution” as part of the inventive step in relation to computer implemented inventions. Japan has a similar interpretation although such does not appear to be enshrined in legislation.
 11. It is my understanding that the Issues Paper was promulgated to discuss whether or not Australia should implement some form of legislative restriction upon business methods and computer related invention and their patentability. I interpret the Issues Paper to be a vehicle by which the concept of a “technical contribution” may be presented to our legislators.

My Opinion

12. I consider that the present arrangements for considering the patentability of business methods and computer related inventions in Australia should not be altered. Specifically, as noted above, parliament has chosen previously to exclude a particular class of subject matter from patentability, based upon moral grounds. Personally, I concur with that decision and note that there are significant differences underlying the moral exclusion of human beings and their biological processes for generation, and the clear commercial practices relating to business methods and computer related inventions.
13. In particular, it is has only been for the past 5 to 10 years that the acceptance of patentability of business methods and computer related invention has prompted significant growing interest in those areas. Those areas traditionally have not enjoyed the benefits of patentability that other areas, such as manufacturing, pharmaceuticals, electronic and general engineering, enjoy. Further, as Australia moves further from a nation of primary and secondary industries to tertiary (service) industries, the importance of business methods and computer related invention will be ever increasing. To disentitle those types of inventions to protection would effectively distance the patenting system from an increasingly larger proportion of Australian businesses.

Issues

14. I have had the benefit of reading the FICPI draft response to the Issues Paper and concur with the opinions expressed therein on most issues. I do however wish to specifically comment on select issues as follows.
15. Issue 8.3.4 raises a point which is unfairly directed to “most business methods”. For example, if one were to consider Australian patent litigation throughout the 1990’s, one would find that a sizeable proportion of granted patents that were tested failed the standard tests of patentability (ie: novelty and inventive step). In this regard, and with respect to Issue 8.3.2, I suspect that in most instances that a “technical contribution” will be necessary for non-obviousness, but such should not

be mandatory. The technical contribution may only arise through a mere implementation of an otherwise novel and inventive method.

16. Issues 8.3.9 and 8.3.10 are also unfairly directed to business method patents. The Australian Patent Office is tasked with examining all applications to a standard, within financial and reasonable limits, to ensure patentability. I am not aware that any one technology attracts “better quality” patents, or that any one technology is deprived of sufficient resources for quality examination. The problems these issues raise are ones already within the grasp of the Australian Patent Office and which may be addressed through existing administrative arrangements. 10 years ago similar problems were encountered with respect to inventions in biotechnology and I understand those have been substantially addressed by recruiting and training appropriate staff, and giving them the proper tools with which to work.

Problem

17. Issues 8.3.9 and 8.3.10 do however highlight some concerns for examination in general, but which are evidenced in relation to business methods and computer related inventions. It would seem inappropriate to seek a legislative solution, one of unknown import, when administrative solutions have yet to be attempted. I am confident that with sufficient effort, the Australian Patent Office will be able to address reasonable concerns regarding the assessment of business methods and computer related inventions.
18. One significant concern in the assessment of any invention is the distinction between issues of statutory subject matter, novelty, and inventive step. This was clearly brought to light in the decision of *CCOM* referred to above and echoed in the decision in *State Street*. It is clear from those decisions, that the legislative framework and the practice of the Patent Office, require a clear distinction between each of the three axes of patentability so that each issue may be considered separately and thereby cumulatively. Paragraph 8.2.10.6 of the Examiner's manual clearly and correctly echoes this point.
19. Unfortunately, the decision of the High Court of Australia in *Philips v Mirabella 32 IPR 449* casts out upon the distinction. The *Philips* decision was based upon an exacting (and in my opinion, unintended) literal interpretation of Section 18 of the Patents Act 1990 to import into sub-Section 18(1)(a) a lingering effect of the need for novelty and inventive step, in spite of the specific provisions contained in sub-Section 18(1)(b)(i). As a consequence, the decision in *Philips* provides a Court, and to the same extent the Patent Office, the ability to raise an objection of non-patentability based on a lingering doubt that is not firmly founded upon issues of lack of novelty or want of inventive step as established in the legislation and through corresponding case law. Significantly, that lingering effect derives from case law before the 1952, this being a time when there was no separate objection of obviousness, and the test was wrapped up in considerations of “manner of manufacture” and novelty (see for example the decisions of *Griffin v Issacs* , *Williams v Nye*, *Rolls Royces Appln.*). In my opinion, this problem requires addressing to clearly distinguish the three axes of patentability.

Proposal

20. I believe the problem may be adequately addressed by minor amendment to Section 18 and to Schedule 1 of the Patents Act 1990. In particular, I would suggest that each of Sections 18(1) and Section 18(1a) be amended at line 2 so as to read as follows:

... an invention is patentable for the purposes of ...”.

21. I would further propose that the definition of “invention” contained in Schedule 1 of the Patents Act 1990 be deleted in its entirety. That definition is redundant upon the provisions of Section 18(1)(a) and contributes nothing to the legislation other than to cause the unintended doubt noted above and exemplified in *Philips*.

Summary

22. In my opinion, no specific legislative change should be made in relation to the patentability of business methods and computer related inventions. It should be left to the Australian courts to establish the bounds of patentability within the reasonable tests that have been established over many years and which have the proven capacity to adapt to many different forms of technology and invention.
23. I further believe that minor legislative change in relation to Section 18 should be implemented as discussed above to clarify the distinction between the three axes of patentability, those being statutory subject matter, novelty and inventive step.
24. I am pleased to make myself available for further consultation in respect of this matter if such is desired. I look forward to hearing from you, in due course.

Yours faithfully

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