

Patenting of Business Systems

Comment by John Swinson, Partner, Mallesons Stephen Jaques.

This brief comment sets out my views, and does not represent the views of Mallesons Stephen Jaques or any client of the firm. I am an Australian solicitor and admitted as an attorney in New York State. I have practiced in the area of business system patents for over 10 years, both in Australia and the United States.

Comment on Definition of "Business System"

The definition in paragraph 4.1 of the Issues Paper is extremely broad. Item (b) in combination with (a)(ii) would cover a very broad range of implementations, including spreadsheet software, cash registers and automatic teller machines, parking meters, almost all software used by a stock exchange or a bank, airline reservation systems, and typesetting software used by a financial newspaper to produce the stock market charts in a newspaper.

The broad scope of this definition may be unintended, or (if continue to be used) may lead to unintended consequences. For example, there are many patents on cash registers, and patents on cash registers have been issued since the beginning of the patent system in Australia and elsewhere. To my knowledge, over the past 100 years, there has been little concern that these patents have been granted. (William Burroughs was granted a patent on a calculating machine in 1888, which would fall within the definition of "Business System" in the Issues Paper.)

An example of the unintended consequences of the broad definition: a computer program can be used for various purposes. For example, a computer program used to assist drawing flowcharts could be used produce flowcharts to allow one to analyse financial or management data (thus within the definition) or to produce flowcharts to describe how to make a cake (thus outside the definition). Accordingly, if different rules are created for a "business system", then one computer program could be treated differently depending on how the user utilises the computer program.

In the Issues Paper, at paragraph 5, it states that "In Australia, business system patents have been granted in some form since at least 1979." Based on the broad definition in paragraph 4.1, this statement does not appear to be correct. Patents on computers used to process financial data, such as cash registers, have been granted in Australia well prior to 1979.

I acknowledge that it is difficult to define "business system".

Issues 8.1 and 8.2

In relation to the six issues listed for discussion in paragraphs 8.1 and 8.2, I do not understand why business system patents are being treated separately from patents on other types of inventions. There have been few economic studies that provide conclusive evidence (or indeed, any evidence) as to whether or not the patent system, as a whole, encourages innovation or the dissemination of knowledge. There is little data on the likely implications of patents in general on the growth of business and research in Australia.

Before addressing the issues in paragraphs 8.1 and 8.2, the Committee will need to ascertain a baseline position, that is, the significance and effect of patents in general in Australia. This would be a worthwhile study, because little research has been done in this area. It may be the case that the patent system, as a whole, does not encourage innovation and inhibits growth in the marketplace.

I note that business system patents have been granted in the United States for (at least) the past 70 years, including:

- * U.S. Patent No. 1,242,872 for the supermarket, issued in 1916
 - * U.S. Patent No. 1,909,537 for the drive-in theatre, issued in 1933
 - * U.S. Patent No. 3,581,072 for an "Auction Market Computation System" in 1963
- Merrill Lynch was granted patents on a cash management system in 1982, one of which was reviewed and upheld by the courts. See 564 F. Supp. 1358 (D.Del 1983). The United States economy, over this period, has grown faster than the economy in Australia. Innovation in the

U.S. has flourished, despite business method patents being issued.

Accordingly, any further study should consider the effect business systems patents have had on the U.S. economy and business.

(The Issues Paper at paragraph 6.2.1 suggests that the law in the U.S. changed with the State Street decision in 1998, but that a "small number" of business system patents had been issued prior to this. In my view, both these statements are incorrect. The State Street decision confirmed what many in the United States believed was the law. A large number of business system patents had been granted prior to 1998.)

Issues 8.3.5 and 8.3.7

From a policy position, I am strongly of the view that business method patents should not be treated, from the legal viewpoint, any differently from patents in other fields of endeavours.

I refer to and incorporate into this submission a number of papers I have written on this topic, including:

* 'Do Internet process patents threaten eCommerce?' [2001] CyberLRes 11
(<http://www.austlii.edu.au/au/other/CyberLRes/2001/11/>)
"... First, I will show that patents have been issued and enforced for inventions relating to commerce for a long period of time. The world has not ended, and eCommerce continues to grow. Looking from a historical perspective, many of the predictions that are made about the patents harming society in this area do not appear to be correct. Second, I will examine, from a policy viewpoint, whether patent is the appropriate form of protection for Internet software and business method innovations. My view is that an Internet or an eCommerce related invention should not be treated any differently to an invention in any other field of human endeavour. Maybe the whole patent system is harmful and should be scrapped, but no one has yet been able to prove this. Probably, the patent system needs a fine tune, because the quality of patent examination is not high. But I see no policy reason why an improved method of efficiently selling airline tickets should be treated any differently by the patent system from an improved method of causing an explosion or a novel machine for chopping down trees....")

* 'Electronic Commerce and Business Method Patents' delivered at the Computer Law Association Conference, 23 February 2001, Sydney, and published by the International Bar Association (<http://www.ibanet.org/general/NewsLetterDetails.asp?ID=109&Section=GEN&Committee=>)

* 'Copyright or Patent or Both: An Algorithmic Approach to Computer Software Protection' (1991) 4 Harv.J.L. & Tech. 237

I also strongly recommend the excellent paper of Ken Moon titled 'Internet Patents: Classification and Justification' delivered at the Computer Law Association Conference, 23 February 2001, Sydney, and published by the International Bar Association (<http://www.ibanet.org/general/NewsLetterDetails.asp?ID=109&Section=GEN&Committee=>)

As discussed above, it is difficult to define a "Business System". This is another reason why business system patents should not be treated differently. Doing so may have unintended and far-reaching consequences in other fields of endeavour.

Issue 8.4.3

The issue of jurisdiction is one aspect of enforcement of business system patents. A number of issues related to enforcement and jurisdiction of business system patents remain uncertain in Australia. For example:

* What if part of the patented system is moved off-shore. Will an Australian court follow the Menashe decision? (See <http://www.bailii.org/ew/cases/EWHC/Patents/2002/397.html>).

* When a business process is patented, is importation into Australia (or use in Australia) of information or data resulting from carrying out the process outside of Australia within the definition of "exploit" in the Patents Act 1990 and therefore an infringement. (Compare Bayer AG v. Housey Pharmaceuticals, Inc., Civil Action No.01-148-SLR (D.Del October 17, 2001).

* What if part of the patented system is used by one entity and the other part of the patented system is used by another entity?

I urge the Committee to focus on jurisdictional and enforcement issues.

I look forward to reading the Committee's draft report.

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