The Patentability of Business Methods
- A Global Perspective -

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2001

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I. INTRODUCTION

The Third Industrial Revolution has produced a new medium of human communication, the Internet, which surpasses all previous technological developments—the printing press, telephone, television—in its impact on our economic and social life. Through other industrial revolution periods, patents have played a key role in protecting innovative developments. The Internet has spurned a new medium for commerce and has brought business methods and software together to facilitate electronic commerce. Software that produces a technical effect has been recognized as patentable for sometime, but this was not immediately accepted when applications were first filed, due to the exclusion of formula and algorithms from patentability. Now with the business world requesting patents for business methods, there is resistance on the basis that business methods per se are not patentable.

In the landmark decision of State Street Bank & Trust Co. v. Signature Financial Group Inc., 149 F 3d 1368 (Fed. Cir. 1998), the United States Court of Appeals for the Federal Circuit ("Federal Circuit") emphatically dispensed with the "ill-conceived" business method exception and held that the exception was born in dicta, had never attained the status of binding precedent, and thus should never have precluded patent

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1 The Third Revolution has been used to refer to the fundamental changes in industry and business caused by the introduction of electronics and computers; G. Basalla, The Evolution of Technology (Boston: Cambridge University Press, 1988) at 192.
2 Tapscott, supra note 1 at 8.
3 See for example s. 26(8) of the Patent Act (Canada).
4 See discussion of the Canadian case of Lawson v. Commissioner of Patents (1970), 62 CPR 101 on page 3 of this paper.
5 Ibid. at 1375.
protection for any invention.⁶ As stated by one commentator, by abolishing the business method exception, the Federal Circuit sought to promote a new era of software patentability and e-commerce business methods.⁷

The issue of whether business methods should be entitled to patent protection has moved to the forefront of international patent law. This paper discusses recent developments regarding the patentability of business method patents in Canada, the United States, the European Union, Japan and Australia.

II. CANADA

The official position of the Canadian Patent Office (CPO) is that methods of doing business are not patentable. Subparagraph 16.04(e) of the Manual of Patent Office Practice states that a “system of doing business …is not considered to be within the scope of "invention" as defined by Section 2 of the Patent Act. "Invention" is defined as "any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement" in any of these things.

Although not specifically referring to business methods, the case of Lawson v. Commissioner of Patents (1970), 62 CPR 101 (“Lawson”) has been construed as supporting the proposition that business methods are not patentable in Canada. In Lawson, the applicant sought to patent a method of describing and laying out parcels of

land using a champagne glass shape in an alternate up-down pattern. In rejecting the application, the court held because that the method claimed involved the skill of a solicitor and conveyancer, and that of a planning consultant and surveyor, it was a fine art that belonged to the professional field as opposed to a useful art required under the meaning of section 2 of the Act. While this distinction is not always clear, what is clear from Lawson is that for professional skills, such as those of a doctor, financial advisor and so forth, to fall within the limits of patentability, they must offer some advantage which is commercially useful and consistently repeatable, and in that sense involve more than professional advice or professional direction.

The exclusion of processes or methods on the basis that they depend on professional skills has led to the rejection of applications encompassing business methods. For instance, in Re Patent Application 564,175 (1999) 6 C.P.R. (4th) 385 (Patent Appeals Board), the Board noted that a patent application, entitled "System for the Operation of a Financial Account", utilized a computer programme to make investment choices in the same manner as a financial advisor. Furthermore, the Board noted that the system performed financial calculations using mathematical formulae that were developed using the professional skills of financial experts. In rejecting the patent application, the Board concluded:

[that the applicant has substituted a computer which has been programmed in a specific manner to make decisions which were formerly made by a financial advisor. As a result of this substitution, professional skill, which is not patentable when practiced by an individual, is being provided via a computer which has been programmed to make use of the same input information to arrive at the same decisions. An operation which is not patentable when carried out by an individual cannot be made patentable merely by having it carried out by a computer.
The Board referred to Federal Court of Appeal's decision in Schlumberger Canada Ltd. v. Commissioner of Patents (1981), 56 C.P.R. (2d) 204 (F.C.A). In that case, the Federal Court of Appeal considered the patentability of a method of analyzing data used to facilitate the exploration for oil and gas. In that case, Pratte J. opined that "the fact that a computer is or should be used to implement discovery does not change the nature of that discovery."

Since Schlumberger, the CPO has developed the position that computer methods or systems are patentable if they are directed to a useful end result, and not merely directed to making calculations. As a result, some patents directed to computer software inventions, including computer-related business methods, have been granted in Canada. For example, Canadian patent No. 1,276,301, entitled "Travel Management System", utilizes a computer program to retrieve and sort flight schedule information in accordance with a predetermined travel policy. Travel policy considerations include flight time, airline preference and ground transportation costs associated with particular airports. The system produces a ranked list of applicable flights in a single display. While on its face, this patent invention may not seem more worthy of patentability than the invention in Re Patent Application 564,175, it was dependent upon many variables, including the "travel policy" considerations of the prospective traveler, flight schedules, and costs, and could not easily be accomplished by a formula or manual system.

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The decision in Progressive Games, Inc. v. Commissioner of Patents (1999) 3 C.P.R. (4th) 517 (F.C.T.D.) brought new hope that the Canadian attitude towards business methods would change. The application, entitled "Poker Game", was for a modified version of a five-card stud poker game which involved the addition of a new player called 'the house'. Citing the Supreme Court of Canada's decision in Shell Oil Company v. Commissioner of Patents [1982] 2 S.C.R. 536, Denault J. summarized the case law relating to the word “art” in section 2 of the Act, and stated:

Accordingly, the definition of the term “art” as provided by the Supreme Court includes a process that:

(i) is not a disembodied idea but has a method of practical application
(ii) is a new and innovative method of applying skill or knowledge; and
(iii) has a result or effect that is commercially useful.

Upon considering this definition, it seems clear that it could easily encompass a business method. Indeed, a method of playing poker in a casino might be seen as a business method relating to the business of gambling. Denault J. held that the first and third requirements were met by the poker game. There was a practical application in the form of the physical manipulation of cards, and the result was commercially useful, as demonstrated by the license fees paid to the applicant by B.C. casinos. What was missing from the invention was the requisite innovative method of applying skill and knowledge. On this point, Denault J. stated:

I do not believe that the Appellant's changes in the method of playing poker are a contribution or addition to the cumulative wisdom on the subject of games …

And further:
In the present case, I believe that the Appellant’s changes in the method of playing poker – i.e. by adding a new player referred to as “the house” – do not substantially modify the poker game as it exists nor do they create a new game.

Implicit in this decision is the idea that had the poker game been more innovative (i.e. had the required inventive step been present), then the method of casino poker, arguably a business method, would have been patentable. Thus, there was hope that this decision could provide support for the idea that business methods were patentable in Canada.

This hope was dampened somewhat by the Federal Court of Appeal\(^9\), which, in upholding the decision of Denault J., concluded in a brief judgment that:

> We should add that we do not want to be taken as deciding that more substantial changes in the existing game would have changed the result.

This statement suggests that the court did not want the holding in this case to be interpreted as commenting on the basic issue of the patentability of business methods, and in particular the modified game rules under consideration in this case.

It is arguable from the above analysis that the state of the law in Canada provides no basis on which to exclude business methods which lie in the field of a "useful art" from patent protection. Furthermore, in spite of the holding in Schlumberger, the trend in Canada has been and continues to be an expansion of the

scope of patentable subject matter and a more liberal interpretation of what amounts to a "useful art".\textsuperscript{10}

Nonetheless, for the near term the CPO will continue to reject business methods per se as unpatentable. It seems that such matter would only be patentable if the application concerned something patentable in addition to the business method, and/or was otherwise patentable under the software rules.

In connection with software inventions, the Canadian Patent Office has established patentability guidelines that provide:

(1) Unapplied mathematical formulae are considered equivalent to mere scientific principles or abstract theorems and are therefore not patentable;

(2) The presence of a programmed general purpose computer or a program for such computer does not lend patentability to, nor subtract patentability from, an apparatus or process; and

(3) New and useful processes incorporating a computer program, and apparatus incorporating a programmed computer, are directed to patentable subject matter if the computer-related matter has been integrated with another practical system that falls within an area which is traditionally patentable.

In general, the Canadian Patent Office is more apt to allow patents for software inventions if it can be shown that the invention has practical application, and is more than a *mere* algorithm. Accordingly, software inventions embodied in some physical element or structure, or applied to some technical field, may be considered more than a mere algorithm and patentable.

Similarly, to the extent that a business method invention can also be shown to have practical application and relate to more than a mere plan or scheme of doing business, such inventions will be more likely be considered by the Canadian Patent Office to constitute patentable subject matter. In the near term, satisfying such a test may also require that the method be embodied in some physical structure or system. However, in the longer term, it is possible that patent protection for business method inventions may ultimately become more broadly available, so long as the method for which protection is sought is beneficial to the public, reproducible, controllable so as to produce the desired result whenever it is used, and not dependent on human skill.

**III. UNITED STATES**

Business methods are patentable in the United States and are subject to the same criteria for patentability as other methods. Algorithms, which are frequently embodied in methods of doing business, are patentable so long as they produce a "useful, concrete and tangible result".

The scope of patentable subject matter in the United States is determined in accordance with 35 U.S.C. § 101, as follows:
Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereor, may obtain a patent therefore, subject to the conditions and requirements of this title.

This definition, in principle, appears little different from that used in other jurisdictions, such as Canada. The scope of § 101 is limited by three categories of subject matter that have been identified by the U.S. Supreme Court as being unpatentable, namely "laws of nature, natural phenomena, and abstract ideas."¹¹ In the case of Diamond v. Diehr (1981), 450 U.S. 175, the U.S. Supreme Court held that mathematical algorithms are not patentable subject matter to the extent that they are merely abstract ideas. Until the decision in State Street, there was a widely accepted view that business methods were not patentable under this definition. However, this exemption was never explicitly stated in the statute or case law.

In State Street, the Federal Circuit rejected what it described as an "ill-conceived" business method exception to statutory subject matter under U.S. patent law. In that case, the patent was directed to an investment system that allowed various mutual funds ("spokes") to pool their assets in a single investment portfolio ("hub"). This configuration facilitated the calculation of the daily allocations of assets of two or more mutual funds in the pool and the final share price of the portfolio. The Court considered that any practical application of a mathematical algorithm or formula was patentable if it produced a "useful, concrete or tangible result", even if that result produced no more than a discreet dollar amount.

Additionally, the Court indicated that business method patent applications should be reviewed in accordance with the procedures outlined in the USPTO Examination Guidelines for Computer Related Inventions (1996). The Guidelines specify that patent claims involving methods of doing business should be treated like any other process claim subject to 35 U.S.C. § 101.

Following the landmark decision in State Street, the case of AT&T v. Excel Communications, Inc. et al, 172 F.3d 1352 (Fed. Cir. 1999) provided the Court of Appeal with another opportunity to address the mathematical algorithm exception. In this case, Excel Communications, Inc. et al sought to invalidate AT&T's patent, entitled "Call Message Recording for Telephone Systems", under § 101 for failure to claim statutory subject matter. The patented telephone system utilized a three-stage method which facilitated the transfer of a long distance call to and from local telephone service providers and a long distance service provider. Utilizing a telecommunications network, the patented invention enabled long-distance service providers to vary their billing treatment for subscribers, depending upon whether a subscriber called someone with the same or different long-distance service provider. The method of accomplishing the call transfer system was founded on mathematical algorithms, which are prima facie non-statutory subject matter. The Court found the method claims to be patentable as they applied Boolean algebra, an abstract mathematical system primarily used in computer science to express the relationship between sets, to produce a useful, concrete and tangible result without pre-empting other uses of the Boolean principles.
Following State Street and the subsequent decision in AT&T v. Excel, the involvement of the U.S. Congress in business method patent issues has increased. On November 29, 2000, Congress enacted the American Inventors Protection Act, which establishes a shield against patent infringement liability. Known as the "first inventor defense", the defense is available if the accused infringer can prove, by clear and convincing evidence, that his method of doing business was, in good faith, used commercially at least one year before the effective filing date of the issued patent. The defense may be asserted only by the person who performed the acts necessary to satisfy the requirements of the defense. Additionally, a successful assertion of the defense does not necessarily invalidate the purportedly infringed patent. There has been no judicial consideration of the "first inventor defense" to date.

With the increase in e-commerce patent filings following State Street, the USPTO developed new examination measures in an effort to ensure that valid business method patents are issued. Most notably, the USPTO has created a special prior art class, Class 705, hired examiners with financial and science backgrounds, and developed an examination and search template to facilitate a more comprehensive search of non-patent literature, which is considered crucial to the examination of business method applications. Class 705, entitled "Modern Business Data Processing", encompasses machines and their corresponding methods for performing data processing or calculation operations, where the machine or method is utilized in the (i) practice, administration, or management of an enterprise; (ii) processing of financial data; or (iii) determination of the charge for goods or services.
On April 3, 2001, Congressman Howard Berman introduced the *Business Method Improvement Act of 2001* which seeks to increase the scrutiny of business method patents and set some basic thresholds for patentability. The Act aims to improve the quality of business related and Internet patents by requiring that the USPTO: (i) publish all business method patent applications after 18 months, not simply those filed in foreign countries; (ii) establish an administrative "opposition" process which enables parties to challenge a granted patent in a less costly manner; and (iii) presume applications to be obvious where an invention is new only in that it uses a computer to implement the business practice. The prospects of this Bill being enacted are uncertain.

The American Intellectual Property Law Association (AIPLA) contends that the imposition of special requirements for the patentability of business methods, such as requiring the invention to have a "technological contribution," as some have suggested, is inconsistent with the United States obligations under the Agreement on the Trade Related Aspects of Intellectual Property Rights (TRIPS). Additionally, the trend towards increased Congressional activity in business method patent issues may not be necessary in light of the USPTO's recent initiatives to expand prior art searching and the Federal Circuit Court of Appeal's reversal of the Amazon.com, Inc. v.

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13 Ibid.
Barnesandnoble.com, Inc. (2001) No.00-1109 (U.S. Court of Appeal) preliminary injunction decision.\textsuperscript{14}

On February 14, 2001, the Federal Circuit Court of Appeal held that Barnesandnoble.com (BN) had raised "substantial questions" as to the validity of Amazon.com's "1-Click®" ordering system in a client/server environment, such as the Internet. Specifically, BN produced prior art comprised of screenshots of the "CompuServe Trend System," a service offered in the early 1990's for ordering stock charts with a single mouse-click. As a result, the Court vacated the preliminary injunction granted to Amazon.com and remanded the case for further proceeding.

In concluding, while the issue of business method patents has been raging in the U.S., there are signs of a claw back of the most liberal application internationally of patent thresholds, both in the application of principles of obviousness and legislative lobbying.

\textbf{IV. EUROPEAN UNION}

In the European patent office, a patent can be obtained for a method of doing business so long as the claimed invention produces a technical aspect or relates to a technical field. This is the same requirement that has been applied to software inventions. Although it is generally accepted that a "technical aspect" or "technical

\textsuperscript{14} Ibid.
character" of an invention is an essential requirement for patentability, the term(s) are not expressly defined or stated in the European Patent Convention (EPC).

Article 52(1) of the EPC states that patents shall be granted for any inventions which are capable of industrial application, which are novel and which involve an inventive step. Pursuant to Article 52(2), mathematical methods, business methods and computer programs are excluded from patentability. However, according to Article 52(3), the limitation on business methods and computer programs applies only in so far as the claims are directed to a computer program or a method of doing business “as such.” Regarding the scope of Article 52(3), the European Patent Office commented as follows:

“[A]lthough methods for doing business, programs for computers, etc. are as such explicitly excluded from patentability, a product or method which is of a technical character may be patentable, even if the claimed subject-matter defines or at least involves a business method, a computer program, etc.”

In Sohei/General Purpose Management System\(^\text{16}\), the EPO Board of Appeal held that a business method is patentable provided it utilizes technical features or has a technical character that contributes to the state of the art as a whole. In this case, the applicant filed a patent application for a system of management, implemented using a computer program. The system comprised an input unit, a memory unit, an output unit, a digital processing unit and a display unit which enabled the inputting of data into a transfer slip for financial and inventory management. The Board allowed the method.


\(^{16}\) T769/92, 1995 OJ 525.
claims on the basis that certain files and processing means (i.e. the technical features) were required in order to perform the patented method.

More recently, in IBM/Computer Program Product\textsuperscript{17} and IBM/Computer Program Product II\textsuperscript{18}, the EPO Board of Appeal assumed that the technical character of an invention was to be considered as a generally accepted requirement of patentability. Additionally, the Board held that the requirement of "technical character" in computer programs is satisfied if a specific or further technical aspect is present in addition to the common technical character inherent in the performance of computer program. The mere potential to produce an additional technical effect is sufficient. Consequently, it is unlikely that the invention ultimately patented in State Street would be patentable in Europe. The Hub and Spoke patent in State Street simply made use of a standard computer program and did not present an additional technical effect or provide a solution to a technical problem.

Recent trends at the EPO indicate that methods of doing business “as such” will continue to be excluded from patentability. In October 2000, the EPO proposed revisions to the EPC which would have resulted in the removal of the prohibition on patenting computer software. The EPC’s proposed relaxing of its approach to computer software patents led several commentators to speculate that a more liberal approach to business methods “as such” would follow.\textsuperscript{19} However, in November 2000, the proposal

\textsuperscript{17} T935/97 (not published in the OJ).
\textsuperscript{18} T 1173/97, 1999 OJ 609.
was withdrawn by the EPO at the Diplomatic Conference in Munich as a result of opposition from the software industry.\textsuperscript{20}

Similarly, in a press release dated August 13, 2001, the EPO notified applicants using the \textit{Patent Co-Operation Treaty} that the EPO would no longer carry out an international search on “an application to the extent that its subject-matter relates to no more than a method of doing business, in the absence of any apparent technical effect.” This refusal appears to indicate that the EPO is presently unwilling to reconsider the business method exemption from patentability in Article 52(3) of the EPC.\textsuperscript{21}

\textbf{V. JAPAN}

With a ring similar to other unwilling jurisdictions, a "business model" is eligible for patenting in Japan provided that it utilizes "technical aspects".\textsuperscript{22} Although the Japanese approach to this subject matter is closer to the approach used in Europe, the development of business method patents in the United States has raised concerns in Japan about Japanese industries falling behind their U.S. counterparts. In response, the Japanese Patent Office has revised its patent office guidelines to address the growing uncertainty surrounding the patentability of "business models" (discussed below).

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\textsuperscript{21} R. Harrison, "EPO not to search "Business Method Patents"" – a copy of this article is available at http://www.germanpatent.de/News/2000108_Business_Method_Patents.htm.
\textsuperscript{22} Unlike in the United States, in Japanese patent applications the "technical aspect" must be expressed in the claim.
\end{flushleft}
Pursuant to Article 2(1) of the Japanese Patent Law, an "invention" means a "highly advanced creation of technical ideas utilizing natural laws" [Emphasis added]. The term "natural laws" is not defined in the Japanese Patent law. Since business model inventions are considered to be in the same class as software-related inventions, the Revised Examination Guidelines for Computer Software Related Invention ("Guidelines") are useful in determining the scope of Article 2(1). Pursuant to section 2.2. of the Guidelines, the following examples do not fall within the meaning of the phase "creation of technical ideas utilizing natural laws": (i) economic rules; (ii) artificial arrangements; (iii) mathematical formulae; (iv) mental activity of a human being; (v) a mere presentation of information (such as picture data taken by a digital camera) (vi) a program for a sports meeting prepared using a word-processing machine; and (vii) computer program listing.

Section 2.1(1) states that when information processing by software is concretely realized using hardware resources, the claimed invention constitutes the "creation of technical ideas utilizing natural laws." According to the Guidelines, information processing by software is concretely realized when an information processing method is accomplished through the use of software and hardware resources working cooperatively.

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"Hardware resources" is defined in Chapter 1 of the Guidelines as meaning "physical devices or physical elements used for processing, operation or realization of a function." The Guidelines state that a computer, comprised of a CPU, memory, input device, output device, or other physical devices connected to the computer, falls within the meaning of "hardware resources."

What constitutes "working cooperatively" is not clear from the Guidelines. One example provided suggests that merely "using [a] computer" to perform a calculation is not sufficient. It is arguable, therefore, that the general use of a computer (i.e. merely operating a computer without any limitations on how it is utilized) with a software program does not constitute "working cooperatively." Conversely, where a computer is used to accomplish a specific purpose using a software program, the method will arguably amount to "working cooperatively."

In June 2000, the Japanese Patent Office (JPO), EPO and USPTO met to develop potential criteria that could be used to standardize the screening of business method patent applications. The standardization exercise was based on two prepared business method patents to determine whether the patent application review processes in the United State and Japan differed. The USPTO and the JPO agreed that business method-related inventions required a technical aspect in order to be patentable. Additionally, the USPTO and JPO were consistent in the view that an invention derived by merely automating known business methods on a computer did not

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involve an inventive step. Although the two Offices could not reach an agreement with regard to the level of technical aspects for patentability, the difference was not considered significant, given that the examination results as a whole were considered consistent between the USPTO and the JPO.

Following the meeting of the Trilateral Offices\(^{25}\), the Japanese Patent Office (JPO) began a process to formulate comprehensive policies concerning business method patents. In November 2000, it released a list of initiatives pursuant to which it will prepare guidelines to clarify examination standards and institute measures to improve the prior art information database, in particular, in regards to non-patent material. As part of this, the JPO has undertaken to provide clear criteria under which business method patents can be approved as part of software related patents. Furthermore, in order to limit the disputes over business patent practices in Europe and the United States, the JPO has agreed, in principle, to develop compatible practices with the other Trilateral Offices.

Also in November 2000, the JPO rejected Amazon.com Inc.'s patent application (JP2000099592A) for a "one-click" online purchasing process. A similar notification was sent to Signature Financial Group concerning their application for a patent on its "hub and spoke" computerized accounting system. With regard to the Amazon.com Inc. application, the JPO decided that the technology could be easily invented from the prior art, that art consisting of an earlier Japanese patent application and a 1996 book by Alan Cooper entitled "User Interface Design." Hence, although a business method

\(^{25}\) The Trilateral Offices include the JPO, EPO and USPTO.
application may involve an invention which utilizes a computer in a specific manner, the
JPO will apply its assessment of obviousness and reject the application where it is
considered that the subject matter of the invention can be easily conceived through
combining publicly known methods and common knowledge in the business field.

From the above discussion it is clear that business models are patentable in
Japan so long as they utilize hardware and software resources working cooperatively to
effect a technical result, and satisfy the requisite novelty and inventive step
requirements. Although Japanese courts will ultimately decide the issue of the validity
of business model patents, the JPO's forthcoming guidelines will help clarify the
examination standards and patentability criteria applicable to business models. In the
end, the difference between Japan and other jurisdictions, like the U.S., will likely be the
interpretation put on "technical effect" and "obviousness."

In March 2001, government officials from the United States and Japan met to
discuss U.S. proposals to promote a more information-technology friendly regulatory
environment in Japan. Regarding business method patents, "[t]he United States urged
the Japanese Government to take a number of measures in this area, including
…clarifying its laws to ensure that the personal use exception for copying is not abused
in the digital environment; and protecting business method patents."

26 "Fact Sheet: Information-technology Expert-Level Meeting Under the Enhanced Initiative on
Deregulation and Competition Policy" (2 March 2001).
VI. AUSTRALIA

In general, a patent grant is obtainable for an innovative idea that provides a practical solution to a technological problem.²⁷ In this context, a patent for a business method is no different from any other form of innovation, with the exception that the patent is restricted to a means of putting the business method into effect. According to section 18 of the Australian Patent Act (1990)("Act"), a patentable invention is an "invention" that is a manner of manufacture within the meaning of section 6 of the Statute of Monopolies and, when compared with the prior art, is novel, involves an inventive step and is useful. Section 6 of the Statute of Monopolies grants a patent for an invention "made of the sole working or making of any manner of new manufacture" to the first inventor or inventors of such manufactures.

The Federal Court of Australia's recent decision in Welcome Real-Time SA v. Catuity Inc., [2001] FCA 445 ["Welcome Real-Time"] represents the first time an Australian court has considered the ruling in State Street. Based on the liberal approach adopted by the Australian Federal Court regarding computer software patents²⁸, it is likely that the scope of patent protection for business methods will broaden following the Welcome Real-Time decision. However, there is a growing concern that the scope of business method patent claims is becoming too broad.²⁹

²⁷ IP Australia, "Patents for Computer Related Inventions"
In Welcome Real-Time, the Federal Court held that there was no exception to preclude the granting of patent protection for business methods. In this case, Welcome Real-Time SA claimed that Catuity Inc. infringed their patent for a process and device involving the operation of smart cards used to maintain a loyalty program. The loyalty program allowed consumers to collect and redeem loyalty points among a group of merchants and provided consumers with price discounts or free goods and services based on information gathered in a "behaviour file", such as the value and frequency of their purchases.

Referring to the State Street decision as "persuasive", Justice Heerey noted that the "commercial and technological environments" of the Australia and the United States were similar, in that in both countries the "law has to strike a balance between, on the one hand, the encouragement of true innovation by the grant of monopoly and, on the other, freedom of competition."

Having thereby suggested that business methods should be treated like any other "invention", Mr. Justice Heerey went on to point out that the case before him involved more than a method of calculation, but devices as well, that together produced an artificial state of affairs with a beneficial commercial result. He stated this as follows:

"In my opinion the Patent does produce an artificial state of affairs in that cards can be issued making available to consumers many different loyalty programs of different traders as well as different programs offered by the same trader. All this can be done instantaneously at each retail outlet. So what is involved here is not just an abstract idea or method of calculation. Moreover this result is beneficial in a field of economic endeavour – namely retail trading – because it enables
many traders (including small traders) to use loyalty programs and thereby compete more effectively for business. Such competition is in turn beneficial to consumers, both in the general sense that competition is good and in the sense that they can obtain benefits in the form of discounts and free goods and services.

What is disclosed by the Patent is not a business method, in the sense of a particular method or scheme for carrying on a business – for example a manufacturer appointing wholesalers to deal with particular categories of retailers rather than all retailers in particular geographical areas, or Henry Ford’s idea of stipulating that suppliers deliver goods in packing cases with timbers of particular dimensions which could then be used for floorboards in the Model T. Rather, the Patent is for a method and a device, involving components such as smart cards and POS terminals, in a business; and not just one business but an infinite range of retail businesses."

The Australian Federal Court found for the patentee on validity and infringement in relation to the patented smart card invention.

The decision of the High Court of Australia in the leading case of National Research Development Corporation v. Commissioner of Patents (1959) 102 C.L.R. 252 ("NRDC"), is helpful in interpreting the minimum requirements for the patentability of business methods. The High Court in NRDC held that the scope of patentable subject matter should not be constrained and that the Court should simply consider the basic principles when determining the patentability of an invention. NRDC involved an appeal from the Commissioner’s rejection of a patent application in respect of a herbicidal composition. In reversing the Commissioner’s decision, the High Court stated:

The point is that a process, to fall within the limits of patentability …, must be one that offers some advantage which is material in the sense that the process belongs to a useful art as distinct from a fine art …that its value to the country is in the field of economic endeavour. [Emphasis added]
The decision in NRDC has been held to require that an "invention" consist of 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.30

The Australian Patent Office ("APO") has also provided guidance as to the patentability of "business schemes". Essentially, a patent may be granted for a business scheme where there is a physical system or process for putting the scheme into effect. Hence, a business scheme is patentable if it involves associated accounting, monitoring, reporting, analysis or electronic commerce systems, because such types of systems are a means of effect. The following are given as examples of suitable subject matter for business schemes:

A method of analyzing business performance by operating a computer system to set specified parameters and thresholds in accordance with preselected criteria and to compare business performance against the parameters and thresholds.

A method of raising funds by seeking sponsors to donate products, and programming a computerized random number generator to operate in a specified way to conduct a raffle of those products.

Examples of business schemes that are not acceptable include:

A method of analyzing the performance of an investment by creating a benchmark, and comparing the investment to the benchmark.

A method of raising funds by seeking sponsors to donate products, and conducting a raffle of those products.

In the latter examples, a physical system or process to implement the scheme, and a scheme that could not be readily performed by a human mind, or an artificially created state of affairs of utility, is absent.

At present, many of the business methods corresponding to those issued in the United States have been granted in Australia. Australian participants in the AIPPI's study of the patentability of business methods have expressed concern about the growing scope of patent claims which are being obtained. They advocate that the APO must review its examination procedures for business method patents to prevent patent claims being granted that are "manifestly invalid."

**VII. SUMMARY**

Currently, the only jurisdiction prepared to grant patents to pure business methods is the United States. In recent years, a great number of such patents have issued. Leaving aside the question of whether pure business methods are proper subject matter for patenting, many of the U.S. patents that have issued may not be inventive in that they are obvious developments in view of what was previously done. Recent developments in the U.S. suggest that tougher times may be ahead for business method patents with a more strenuous application of the obviousness test, as witnessed in the 1-CLICK® decision, and the USPTO's initiative to search more non-patent literature, and further legislative activity, as witnessed by Congressman Burman's proposed bill.

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Most of the major jurisdictions, Europe, Canada and Japan for example, have not bought into State Street and maintain business method exceptions, requiring business methods to meet the same patentability criteria as software, requiring for the most part that it produce some concrete technical effect or be built into another practical system that is traditionally patentable, as opposed to simply a method of doing business.

Australia at present appears less resistant to the State Street approach and, although it requires the presence of a physical system or process, has taken a more liberal approach to the amount of technical effect or physical system that must be present for patentability of business methods.

From here? Look for a roll back of the widespread granting of business method patents in the U.S., with a more strenuous application of non-obvious requirements than at present. In the near term, look for the rest of the world to continue to reject the patentability of business methods per se, but to begin allowing applications for methods that encompass something technical beyond the method itself.

Beyond that, the thinking on business method protection could progress to allow protection to new and unobvious methods which produce a new and commercially useful result provided that result is consistently reproducible whenever the method is used, and the result is not dependent on human skill or, as put in Australia, creates an artificial state of affairs. This accords with accepted standards of patentability, is in the realm of a useful art, not a fine art, and should not be blocked on the basis of an
absolute exclusion of business methods from patentability. Practically speaking however, in most jurisdictions, the amount of movement in this direction will probably turn on the local interpretation given to the presence of a technical character, aspect or a physical system. Time will tell.