

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

TABLE OF CONTENTS

I.	Introduction	1
II.	International and Multilateral Co-operation	1
III.	Inherent Patentability – What does it Really Mean?	4
IV.	What is meant by “capable of industrial application”?.....	8
A.	EUROPEAN UNION - The United Kingdom	8
B.	THE UNITED STATES OF AMERICA.....	12
C.	AUSTRALIA	17
D.	CANADA.....	20
V.	Conclusion	22

Business Method Patents and “Inherent Patentabililty”? - A comparative analysis.

I. Introduction

Patent protection, like other protection of intellectual property, is a means of encouraging innovation. The protection is in the form of monopoly rights conferred on the patentee to commercially exploit the invention for a limited time. There is a trade off between the grant of the monopoly right and the benefits to society. The trade off is disclosure. The patentee must disclose the invention so that the society can benefit from the work.

The issue of patentability invariably arises in the field of technology. Technology is dynamic. For this reason technology has often given rise to the invention of new ways of doing things. It is in this context that the issue of patentability of business methods is to be discussed. The issue of patents and patentability has been the subject of international treaties in attempt to harmonize intellectual property laws. This paper will attempt to examine the issue of inherent patentability. Is it to be regarded as a threshold requirement for the granting of a patent? Or is it to be understood as incorporating the treaty provisions or the statutory conditions for patentability? I will argue that the latter is the better view. I will attempt to support this position by a comparative analysis of the approach to the granting of patents in four jurisdictions, The United Kingdom, The United States of America, Australia and Canada.

II. International and Multilateral Co-operation

International treaties can either constrain or influence the national treatment of issues such as the patentability of business method patents. The success or failure of an international treaty depends on the ability to enforce its provisions in relation to member states.

Business Method Patents and “Inherent Patentability” - A comparative analysis.

The main International Treaty that addresses the patentability of business methods is the Trade Related Aspects of Intellectual Property Rights 1994 (TRIPS Agreement). The TRIPS Agreement is an annex to the agreement establishing the World Trade Organisation (WTO) and all members of the WTO are members of the TRIPS agreement. This includes the United States of America, Canada, the United Kingdom and Australia.

The European Patent Convention 1973 (EPC) is a multilateral treaty between the member states of the European Union. Not all members of the European Union are members of the European Patent Convention. The members of these two treaties are not therefore co-extensive.

The Trips agreement specifies minimum standards for the granting of patents. It means that member states are free to make provisions in relation to the specific areas once the minimum standards are met. The TRIPS agreement is administered by the WTO and is likely to be more effective than previous treaties because it incorporates the WTO enforcement mechanisms. This ensures that there will be co-operation among member States. Co-operation is assured because governments are able to apply sanctions including trade sanctions where other States have failed to become TRIPS compliant.

The TRIPS agreement constitutes “the floor” requirement for the patentability of business methods. Article 27(1) provides that “patents shall be available for any inventions whether products or processes, in all fields of technology, provided they are new, involve an inventive step and are capable of industrial application”. For the purpose of the Article “inventive step and “capable of industrial application” are deemed to be synonymous with the terms “non-obvious” and “useful” respectively. The agreement by Article 27 (3) excludes the following subject matter from patentability:

1. diagnostic, therapeutic and surgical methods for the treatment of humans or animals;

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

2. plants and animals other than non-biological processes for the production of plants or animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective *sui generis* system any combination thereof. The provisions of this subparagraph shall be reviewed four years after the date of entry into force of the WTO Agreement.

The TRIPS agreement does not specifically exclude schemes of doing business and applies to “any inventions, whether product or processes”.

In terms of patentable subject matter the EPC is in similar terms to the extent that it provides that “patents shall be granted for any inventions which are susceptible of industrial application, which are new and which involve an inventive step.” The EPC then enumerates a list of unpatentable subject matter. So far as relevant it provides that “schemes, rules and methods of performing mental acts, playing games or doing business, and programs for computers” are not to be regarded as inventions.¹ This is subject to the proviso in Article 52(3), which stipulates that the subject matter of the claim is only unpatentable to the extent that the patent application relates to these subject matters “as such”. This has been interpreted to mean that a distinction is to be made between the thing excluded when claimed on its own and a claim in which the excluded thing is only a component part of the total invention being claimed. When claimed on its own the thing is automatically excluded.

The EPC and the TRIPS Agreement are similar to the extent that an invention must be ‘susceptible of industrial application’ and ‘capable of industrial application’ respectively. One difference is that the EPC has a broader range of excludable subject matter than the TRIPS agreement. The major difference for these purposes is that schemes and methods of doing business are inherently unpatentable under the EPC whereas they have not been expressly excluded under the TRIPS agreement. I say

¹ Article 52 (2)

expressly because in its application there seems to be some confluence of the two. In this context I will argue that inherent patentability is not a separate requirement but an embodiment of the provisions of these treaties.

III. Inherent Patentability – What does it Really Mean?

I understand inherent patentability to mean that the thing itself is capable of being subject to a patent. Inherent patentability is not a term of art. The natural and ordinary meaning of inherent is “existing in someone or something as a permanent and inseparable quality or attribute.”² This means that the subject matter should have a condition or an attribute that makes it patentable. When looked at in this way it is difficult to see how, save in accordance with judicial authority or *statutory* ‘edict’, a claim or a subject matter can be said to be inherently patentable simpliciter. It means that outside of the statute it would be necessary to prove this characteristic or attribute that makes the thing inherently patentable. I have serious difficulty therefore in accepting definitions, which seem to suggest that inherent patentability is a threshold requirement for patentability without more. If that is so what are the characteristics that make it so or that are “inseparable” or “permanent”? I am of the view that inherent patentability must be considered in the context of the *requirements of the statute subject to any stated exceptions*. There are dicta in the *State Street*³ decision in the United States of America that support this proposition. One such dicta stipulates that “[t]he plain and unambiguous meaning of § 101 is that any invention falling within one of the four stated categories of *statutory* subject matter may be patented, provided it meets the other requirements for patentability

² *Random House Webster’s Dictionary* 3rd ed. s. v. “Inherent”

³ *Infra*

Business Method Patents and “Inherent Patentability” - A comparative analysis.

set forth in § 102, 103 and 112, P2.”⁴ It means that everything is patentable so long as it *falls within the statutory requirements* for patentability. This does not make everything inherently patentable. The point was made clearer in a footnote where the case of *Re Bergy*⁵ was cited with approval. In that case the patent process was described as a two-door system:

“The first door to be opened on the difficult path to patentability is § 101...The person approaching the door is the inventor, whether his invention is patentable or not...*Being an inventor or having an invention, however, is no guarantee of opening even the first door. What kind of invention or discovery is it?* In dealing with the question of this kind, as distinguished from the qualitative conditions that make the invention patentable, § 101 is broad and general; its language is: “any***process, machine, manufacture, or composition of matter, or any ***improvement thereof.” Section 100(b) further expands “process” to include “art or method, and ***a new use of a known process or machine, manufacture, composition of matter, or material.” *If the invention, as the inventor defines it in his claims (pursuant to § 112, second paragraph), falls into any one of the named categories, he is allowed to pass through the second door, which is § 102; “novelty and loss of right to patent” is the sign on it. Notwithstanding the words “new and useful” in § 101, the invention is not examined under that statute for novelty because that is not the statutory scheme of things or the long-established administrative practice.*

In effect the threshold requirement for patentability is contained in the statute – The words *new* and *useful* qualify the types of ‘inventions’ that are patentable be it process, machine or any of the other enumerated subject matter. It means that when the phrase inherent patentability is used in this paper, it is intended to refer to the statutory conditions unless otherwise stated. Inherent patentability, being referable to the statute means that in the application of the law, business methods simpliciter are inherently unpatentable. It is a particular characteristic of a business method that makes it patentable. The trend has been to look for a means plus functionality and practical applications. The question is whether there has been a uniform application of the law. It is hoped that a general examination of the relevant provisions of the treaties and

⁴ State Street Bank & Trust Co., v. Signature Financial Group, INC, extracted in Comparative Intellectual Property in the Digital Era, Intensive Course Spring 2002 176 at 178(column 2)

⁵ 596 F.2d 952, 201 U. S. P. Q. (BNA) 352 (C.C.P.A. 1979)

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

legislation of the various jurisdictions will provide an answer. The differences on the face of the statutes are differences in drafting. Generally speaking, for example, abstract ideas are an exception in the United States and Australia. This is a common law exception in those jurisdictions. A mathematical algorithm is an abstract idea it is therefore inherently unpatentable. Yet if this same algorithm is coupled with a technical or useful application in the real world it is patentable.

The various provisions suggest that it is the conditions that are set out in the statute that determine whether or not the claim will be patentable. In that context the treatment of inherent patentability as a threshold requirement without reference to the statute seem superfluous especially when viewed against the background of the natural and ordinary meaning of the word. Mathematical algorithms and computer programs for example, are subject to the same type of scrutiny as business methods even though every attempt has been made to say that the latter is not an exception to patentability.⁶ How else can the fact that the same principles apply to each of them in attempting to determine patentability as seen from the case law be explained. It is more useful to look at the issue not in terms of whether business methods are inherently patentable, because they are not - at least that is my view, but in terms of whether they are capable of practical application, new and involve an inventive step which seems to be the general trend in the jurisdictions considered herein.

In support of the argument on the issue of the inherent patentability or not of business method patents I suggest that TRIPS implicitly incorporates the ‘as such’ requirement of the EPC. This is so in the sense that to be subject to a patent the method must involve an inventive step and be capable of industrial application. It is this

⁶ *Ibid* note 3

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

industrial application requirement that makes it clear that even under TRIPS a business method per se or as such is not patentable. In other words a patent will not be allowed unless it is capable of industrial application even if it involves a new and inventive step. In the end I think that both treaties end up at the same place. It is important to note that the EPC predates TRIPS. TRIPS, although generally speaking differently worded, can be said to incorporate the provisions of the EPC as regards patentability.

TRIPS represents a broad statement of the principles which incorporates the exceptions and leaves it to the member states to determine the specific exceptions that will be incorporated into national law, if necessary. EPC on the other hand sets out the general position with enumerated exceptions subject to the ‘as such’ requirement. The ‘as such’ requirement is interpreted in principle to reflect the ‘industrial application’ requirement in TRIPS. Having regard to its natural and ordinary meaning inherent patentability is not to be construed as a threshold requirement in the sense of an additional requirement but as embodying the requirements of the statutory or treaty provisions. The most important test for these purposes is what is meant by usefulness or industrial application. This paper proceeds on the assumption that the other requirements for patentability are satisfied.

It is hoped that an examination of the law of four jurisdictions will provide some support for it as well as some insight into how business methods are treated. I therefore propose to look at the law in the United Kingdom, the United States of America, Australia and Canada.

IV. What is meant by “capable of industrial application”?

If we were to speak of inherent patentability I think that this is the characteristic or attribute that makes something inherently patentable. This is the qualifier. It is to be noted that in all cases this is the first requirement that is considered and when it fails the whole claim goes. If it succeeds then door number one is opened and there is a consideration of the other conditions. I have not seen any case that explains the notion of patentability or inherent patentability in terms of any characteristics or attributes outside of the conditions in the statutes or provisions and in particular technical effect.

Robert Stoll the Administrator for External Affairs, United States Patent and Trademark Office at a WIPO conference on the 19th day of September 2001 presented that in determining the *eligibility* for a patent “USPTO and the U. S. Courts look to whether the claimed invention “as a whole” has a practical application that produces a “useful, concrete and tangible result.” [*Emphasis added*]. It is to be noted that this is the same test in relation to “useful”, “susceptible of industrial application” or “capable of industrial application”. It is important to note the use of the word eligibility. This supports the argument that there is no concept of inherent patentability in a vacuum; it refers back to the treaty and the statutory provisions. Since this step seems to be the “first door” or the most important or controversial step it will be examined in the context of the four jurisdictions that are being discussed herein.

A. EUROPEAN UNION - The United Kingdom

The United Kingdom legislation mirrors the EPC it being a member of the European Patent Organisation. This means that on the face of the legislation there is an

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

explicit requirement that the thing claimed must be capable of industrial application. Prima facie therefore the United Kingdom legislation is TRIPS and EPC compliant.

Section 1(1) of the Patent Act (1977) hereafter the PA 1977 governs the granting of patents. In this respect it sets out four pre-conditions and these are that the invention is new, involves an inventive step, is capable of industrial application and does not fall within the category of exemptions that for our present purposes includes schemes processes and methods of doing business. The category of exemptions is subject to the ‘as such’ proviso in Section 1(2) of the PA 1977. The key to this issue is the interaction between the ‘as such’ proviso and the industrial application requirement.

The United Kingdom Patent Office after public consultations in March 2001 took the decision that business methods are to remain un-patentable. In coming to this decision it took into account the role of patents. Its decision was based on the fact that the role of patents is to encourage innovation. It could not in these circumstances allow protection where no technological effect or computers are involved. It involves a recognition that “business methods are.... as old as business itself”⁷ and that given the nature of business, patents in this area might be too broad. They were of the view that competition between businesses to find better ways of doing business was a sufficient stimulus for innovation. In this context there was no lack of innovation and so the need for patents in this area was found to be unnecessary. This reasoning seems sound and is in keeping with the general policy behind the grant of the monopoly rights in this area.

It is very important to observe that when the ‘as such’ proviso is being applied a distinction is drawn between the claim in abstract terms and the application of the claim

⁷ The UK Patent Office – About us and Policies – Consultation conclusions, online: <<http://www.patent.gov.uk/about/consultations/conclusions.htm>> (last modified: 24 May 2001)

Business Method Patents and “Inherent Patentability” - A comparative analysis.

or method. The latter is inherently patentable and the former is not. The distinction was made in the case of *Vicom*⁸ before the European Patent Office (EPO). This case involved a consideration of computer programs and mathematical methods ‘as such’ but the principles therein are of general application and so are applicable to business methods. In coming to its decision the Technical Board of Appeal said:

No direct technical result is produced by the method as such. In contrast thereto, if a mathematical method is used in a technical process, that process is carried out on a physical entity (which may be a material object, but, equally, an image stored as an electric signal) by some technical means implementing the method and provides as its result a certain change in that entity. The technical means might include a computer comprising suitable hardware or an appropriately programmed general-purpose computer.

An important factor in this analysis is the *technical effect* of the proposed invention. The technical effect does not require any kind of physical entity or other fixation in the real world to remove it from the realm of abstract ideas or a mere method of doing business so that “an image stored as an electrical signal” is sufficient. This test was later incorporated in the EPO guidelines in 1985. It was made clear that in these circumstances the test did not require a distinction between hardware and software. Technical effect or result does not contemplate the mere embodiment of a program in a physical form or which is loaded onto a conventional computer. The program when running on a computer must be capable of resulting in a “technical effect, which goes beyond “normal” physical interactions between the program (software) and the computer (hardware) on which it is run.”⁹

The Pension Benefit Systems Partnership¹⁰ case is relevant to the issue of how the proviso is applied to the business methods except that it is arguably wrongly decided. In this case the Technical Appeal Board of the EPO refused to grant a patent for a method of

⁸ T 208/84, [1987] OJ EPO 14

⁹ Andrew Christie, T 1173/97, *International Business Machines: Comparative Intellectual Property in the Digital Era*, Intensive Course (2002) University of Toronto, 122, 137.

¹⁰ See T 0931/95 – 3. 5. 1., *ibid*, at 139

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

controlling a pension benefits program, which included the capacity to determine the age of the enrolled employees as well of the cost of the scheme to the employer and the subscriber. The claim also included an apparatus claim, which involved a data processing means to receive the relevant information into the memory of a computer. The basis for the board’s refusal is that the claim lacked the technical characteristic required for patentability under Articles 52(2) and (3) of the EPC. The board found that “the individual steps defining the claimed method amount to no more than the general teaching to use data processing means for processing or providing information of purely administrative, actuarial, and/or financial character, the purpose of each single step and of the method as a whole being a purely economic one...”¹¹

On this reasoning the claim failed to make any technical contribution to the prior art. The board held further that “a computer system suitably programmed for use in a particular field, even if that is the field of business economy, has the character of a concrete apparatus in the sense of a physical entity, man-made for a utilitarian purpose and is thus an invention within the meaning of Article 52(1) EPC.”¹²

This is making a distinction between the abstract that is a method for doing business and a physical application in the form of an apparatus capable of performing the method. This seems to be a departure from the general principle laid down in the *Vicom* case and the *IBM* case. In these two cases technical effect did not contemplate any requirement for physicality. In other words the practical or concrete result need not be a physical entity. In the *IBM* case that dealt with the issue of the patentability of computer programs it was held that the technical effect requirement would be satisfied the software

¹¹ *Ibid* at 147

¹² *Ibid* at 150

Business Method Patents and “Inherent Patentability” - A comparative analysis.

solves “a technical problem.”¹³ In fact the mere application of the method in a physical entity is insufficient to come within Article 52(2) as set out in IBM as there must be a technical effect. This is the reason for the argument that the Pension Benefits Case has been wrongly decided. In sum therefore the TRIPS and EPC terms “susceptible of” or “capable of industrial application” have been applied to mean that the invention must have a technical effect. The Pension Benefits case is therefore an aberration, which ought to be remedied at the earliest opportunity.

B. THE UNITED STATES OF AMERICA

In the United States of America, there is no direct transport of the terms ‘capable of industrial application’ or ‘susceptible of industrial application’. This does not mean however that the United States legislation and its interpretation are not TRIPS compliant. Support for this argument can be found in the TRIPS agreement itself. In the TRIPS agreement “industrial application” may be deemed by a Member to be synonymous with “*useful*.”¹⁴ In the United States the definition of a patentable subject matter includes “useful”. The eligibility for patents is provided for in 35 USC § 101. This provides that “[w]hoever invents or discovers any new and *useful* process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, *subject to the conditions and requirements of this title*.”[*Emphasis added*]. In light of the deeming provision in the TRIPS agreement the requirement for patentability is in keeping with the terms “industrial application or susceptible of industrial application”. The United States legislation is therefore *prima facie* TRIPS compliant.

¹³ *Ibid* at 135.

¹⁴ Extracted in Comparative Intellectual Property in the Digital Era, Intensive Course (2002) University of Toronto, 115[*emphasis added*].

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

The argument can be examined from another angle. It can be argued that the TRIPS agreement is the one that came in line with the United States legislation. The United States legislation, like the EPC, predates the TRIPS agreement. Instead of requiring cumbersome amendments to national legislation or previous agreements it merely incorporated the terms of national legislation into its provisions by the use of that deeming provision. TRIPS therefore used the deeming provision to take care of differences in drafting in different jurisdictions. Viewed from this angle therefore, there is an even more compelling reason to suggest that the legislation is TRIPS compliant and that there is a need to look at its application in practice to determine if there is any diversion from the spirit of TRIPS. One obvious difference between this legislation and TRIPS is that there is no enumeration of unpatentable subject matter and such exemptions as exist have been developed by case law. The issue therefore is to see whether in application the law has been applied consistently with TRIPS principles. Can it be said that business methods are inherently patentable even though it is not expressly excluded by legislation or case law?

It is said that business method is treated the same as any other invention in the United States of America. It is felt that the expansive use of the term “any” in the United States s. 101 is meant to “extend to anything under the sun that is made by man.”¹⁵ It is true that prima facie 35 U. S. C. 101 does not have an express requirement that in order to be classified as an invention a subject matter must have either a technical effect or contribution. However, a careful reading of the section together with the TRIPS agreement and their application has this effect. This is having regard to the deeming provision in TRIPS, which deems useful to mean capable of industrial application.

¹⁵ *Ibid* at 179

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

Industrial application has in turn been defined as having a technical effect in the case law. The term useful as aforesaid qualifies the named categories of inventions.

In the *State Street*¹⁶ case the Federal Circuit relied on the Supreme Court’s identification of three categories of subject matter that are not patentable. These are, “laws of nature, natural phenomena and abstract ideas.” It was found that the Court has never applied the so-called business method exception and that there has always been another basis for the court’s decision. One such basis is the application of the mathematical algorithm exception where the court’s decision may be based on the fact that the claims lacked novelty or “that the claims implicitly recited an abstract idea in the form of a mathematical algorithm and there was no transformation or conversion of the subject matter representative of or constituting physical activity or objects.”¹⁷ The latter is important. In other words the basis of the decisions have not been based on any exception to patentability. It has been based on the issue of whether the subject matter had a *technical effect* or to use their words “constituting physical activity or objects.”¹⁸ The business method must be more than the manipulation of an abstract idea “constituting disembodied concepts or truths that are not useful”.¹⁹ It therefore means that for a subject matter to be patentable it must be useful. It must “as a whole” produce “a useful, concrete and tangible result”.²⁰

In this context what difference does it make to regard it as an exception as distinct from saying as they now do that it must produce a useful and tangible result? I do not see one. What I see is that it is not patentable as such but if it produces a technical effect

¹⁶ *Supra*

¹⁷ *Ibid* at 182

¹⁸ *Ibid.*

¹⁹ *Ibid*

²⁰ *Ibid* citing *In re Alappat*, 33 F. 3d 1536 [Fed. Cir. 1994]

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

then it is. To put it another way, what I am saying is that a ‘method of doing business simpliciter’ and a ‘method of doing business plus’ are two different things. From the authorities, including *State Street*, it is clear that a mere method of doing business is unpatentable. A method of doing business that produces a tangible or technical result is patentable. What difference does it make therefore if the method of doing business simpliciter is expressly stated to be an exception when by its treatment it clearly is. It would have been better if they were to say that a method of doing business plus is inherently patentable, whatever that plus may be, since at the end of the day it has to produce a tangible, useful or technical effect and meet the other conditions of for patentability. These are utility, novelty and non-obviousness.

The argument that there are only three exceptions to patentability in the United States of America is at worst not very convincing or at best dubious. On the one hand the argument can be seen as pure semantics. In this context business methods ‘as such’ are an exception to patentability because they are abstract. They do not seem to possess the characteristic that subject matter must have in order to have at least a potential of being granted a patent. They are therefore to be subsumed under the general head of abstract ideas that makes them not inherently patentable. In addition to this the incorporation by TRIPS of the United States provision - ‘useful’ and the subsequent interpretation by the United States in terms of physical, practical or tangible application does support the argument that what is inherently patentable is a business method plus and not the business method itself.

On the other hand if they are considered not new then this has an implication for the issue of novelty since something might be inherently patentable but fail at the step

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

where novelty is being considered. So arguably the United States could be seen as saying that business methods are inherently patentable because it is not within any of the known exceptions. From this viewpoint a business method is really not clearly an abstract idea it is more likely to be not new and if that is so it falls to be considered at the novelty and non-obvious step.

Because of the deeming provision in TRIPS and because the United States seems also to adopt the interpretation of technical effect it is difficult to reconcile these two positions. If the focus is on technical effect or industrial application, which seems to have been accepted by the United States, then it is difficult to argue that business methods are inherently patentable without reference to the statute.

If however, the position is taken that business methods are not new then it is more appropriate to say that they are inherently patentable and that their ‘newness’ or novelty will be considered at the back end of the examination. The two positions seem irreconcilable. I think that the problem is the nature of business methods themselves and any reconciliation must resolve the conflict between two competing views. These are, are they abstract or are they simply not new. There is no bright line. However, it might be better to accept the technical effect argument for basing a claim in relation to business methods as it does not preclude the courts from saying later that a particular method while producing a technical effect is not new. The United States interpretation therefore needs to settle into a specified channel, even though it is otherwise TRIPS compliant. Again in this context the natural and ordinary meaning of the words must be taken into account.

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

Notwithstanding these concerns however, the United States legislation and its interpretation by the Court is TRIPS compliant in terms of the requirement that the invention produces a useful concrete and tangible result.

C. AUSTRALIA

In Australia, there is no direct transport of the terms “susceptible” or “capable of industrial application” either. The dictionary of Schedule 1 of the Australia Patent Act stipulates that the subject matter of a patent must be an “invention”. It defines an invention as “any manner of new manufacture the subject of letters patent and grant of privilege within section 6 of the Statute of Monopolies, and includes an alleged invention”.²¹ This section is to be read together with Section 18(1)(a) which states, “a patentable invention is an invention that, so far as claimed in any claim is a manner of manufacture within the meaning of section 6 of the Statute of Monopolies.”²² The definition in schedule 1 sets up two requirements for patentability firstly, newness and secondly, a manner of manufacture. These two expressions carry the same meaning for the purpose of the 1990 Act. There is, as in the United States no specific enumeration of unpatentable subject matter and such exemptions that exist are similar to those that exist in the United States of America and have also been created by case law.

One important difference between the Australian and the United States legislation and hence the TRIPS agreement and the EPO is that there is no equivalence to either “capable” or “susceptible of industrial application” as used in the TRIPS agreement and the EPO respectively. One would have thought that this meant that the Australian

²¹ Australian Patent Act 1990, online: Australian Patent Office Manual of Practice and Procedure Volume 2, para. 8.2.1.1 <<http://www.ipaustralia.gov.au/library/PDFS/patents/part208/PDF>> (last modified: November 1999).

²² *Ibid*

Business Method Patents and “Inherent Patentability” - A comparative analysis.

legislation is not TRIPS compliant but that is not so. Its interpretation by the patent office and the Courts has adopted a similar approach to the United States and the EU.

The practice of the Australian Patent Office (APO) in applying the “manner of manufacture” requirement is that a new use of old contrivances cannot be supported unless there is “additional ingenuity in overcoming fresh difficulties.”²³ This reasoning is in line with the UKPO’s formulation that business methods simpliciter are unpatentable unless there is this “additional ingenuity in overcoming fresh difficulties.” This view is supported by the Act in terms of the test for determining whether a process comes within the statute. The test for determining whether a method or process is “a manner of manufacture” is “if it (a) results in the production of some vendible product or (b) improves or restores to its former condition a vendible product or (c) has the effect of preserving from deterioration some vendible product to which it is applied.”²⁴ “Vendible” and “product” have been given a broad interpretation. If a product has economic value to the community then it is regarded as vendible. The product need not be tangible but can be any “physical phenomenon in which the end result may be observed.”²⁵ The NRDC²⁶ case set the parameters for defining the manner of manufacture and so vendible has been clarified to mean “utility in practical affairs” and product as “an artificially created state of affairs.” Here, a distinction is made between useful art and fine art. To come within the manner of manufacture or within the “first door” the subject matter must belong to the useful arts. The invention must be capable of

²³ Willmann v. Petersen, 2 CLR 1 at 17 cited in APO Manual of Practice and Procedure 8. 2. 2. (*Infra*)

²⁴ G. E. C.’s Application (1943) 60 RPC 1 cited in APO Manual of Practice and Procedure, *Ibid.*

²⁵ *Ibid.*

²⁶ National Research Development Corporation v. Commissioner of Patents, (1959) 102 CLR 252, (1961) RPC 134, 1A IPR 63 cited in APO Manual of Practice and Procedure, (*Infra*).

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

practical application or produce a tangible result and be of economic value to the community.

It is against this background that a mere scheme or plan or method of doing business is to be analysed. Each has no practical application and is therefore not patentable because they cannot be classified in these circumstances as a “manner of manufacture”. Nevertheless the mere presence of a mere scheme or plan in a claim will not make the subject matter of a claim otherwise patentable, unpatentable. This is consistent with the model suggested which makes a distinction between business methods and business methods plus. This was confirmed in the case of *Welcome Real-Time SA v. Catuity Inc.*²⁷ in which there was an application for a patent for a process for operating “smart cards in connection with traders’ loyalty schemes.”²⁸ The confirmation came from Heerey J who said “...the patent is for a *method and a device*, involving components such as smart cards and POS terminals, in a business.”²⁹[Emphasis mine] The learned Judge construed the State Street case as persuasive authority. He went on to hold that a method of doing business “that produce a **technical** solution or **technical** advantage generally fall within the concept of “artificially created state of affairs”. The artificial state of affairs is the technical character of the business method.”³⁰ In terms of practice the Australia Patent Office has adopted a similar approach to the United States Patent Office, and have construed business methods that produce a “technical solution or technical advantage”³¹ as generally falling within the concept of an “artificially created state of affairs”. The artificial state of affairs is in the technical character of the business

²⁷ [2001] FCA 445 cited in the APO Manual of Practice and Procedure (*Supra* – note 21)

²⁸ *Ibid*

²⁹ *Ibid*

³⁰ *Ibid* at 8. 2. 8.6.

³¹ APO Manual of Practice and Procedure (*Supra* – note 21)

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

method.”³² From the foregoing it can be seen that in Australia like in the United States a subject matter will not have utility until it has been implemented. In other words the method or plan must be capable of being put into effect. A claim that passes the technical effect threshold (door) is still subject to the other requirements. The subject matter must still satisfy the test for an inventive step and for sufficiency. It seems to me therefore that even on this analysis a business method is not inherently patentable but must satisfy the conditions of the statute and produce a technical effect.

D. CANADA

The Canadian Patent Act 1985 presupposes that the subject matter of a patent is an invention. Invention has been defined as “any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement in any art process, machine or composition of matter”.³³ There is no specific enumeration of unpatentable subject matter. The inclusion of the word “useful” in the Canadian formulation is similar to the TRIPS, having regard to the deeming provision, and the United States definition of patentable subject matter. Canada’s interpretation marks a departure from the general practice. “Useful” or “capable of industrial application” has been interpreted to mean that a claim must have a technical effect or advantage and capable of being implemented in the physical world. The *Pension Benefits*³⁴ case would therefore have suffered the same fate in Canada since it referred to a process absent a device.

³²

Ibid

³³

R. S. C. 1985, P-4, s. 2

³⁴

Supra

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

This was the case in the Canadian *Motorola*³⁵ decision where the application related to an apparatus “to determine a reciprocal of the Jth root of an input value.” The court acknowledged the general rule that it is not possible to obtain a patent for claims to an algorithm per se. Nor is a claim that contains “a method which does nothing more than set out the step needed to solve an algorithm.”³⁶ The court was of the view that “an apparatus claim *which consists exclusively* of a series of means plus functions statements is usually considered to be nothing more than a “disguised” method claim and if the method itself is not patentable, this type of apparatus claim is also not patentable.”³⁷ The device must be a physical element. This departure means that the Canadian patent system is open to abuse in that by simply framing the claim as an apparatus claim with a physical element the applicant can get around the hurdles to be surmounted with respect to a process claim. This can be seen from the reasoning of the Board where it held that the claim included “at least one specific piece of computer hardware which is a real physical element.”³⁸ In light of this the Board was of the view that “the claims of this application go beyond being directed to a mere scientific principle or abstract theorem.” The applicant is not seeking to exclude others from using the algorithm itself but is seeking to exclude others from using the specific device which is claimed.”³⁹[Emphasis added].

Although generally speaking, therefore the wording of the Canadian statute is in keeping with TRIPS its interpretation represents a departure from the general practice. In searching for a rationale for the decision it may be that Canada is a bit slower in catching

³⁵ Re Motorola Inc. Patent Application No. 2,047,731, 86 C.P.R. (3d) 76 (1998)

³⁶ *Ibid*

³⁷ *Ibid*

³⁸ *Ibid*

³⁹ *Ibid*

up with current practice. The *Motorola* case was being considered at about the same time as the *State Street* decision was handed down as also the *Pension Benefits* decision. *State Street* made it clearer that there was no requirement for physicality. In light of the state of the law prior to *State Street* and the relatively recent decision *Pension Benefits* decision it is possible to argue that Canada might not have been so far off at the time. Now that it is clear however, that the traditional conceptions of physicality are outdated then certainly the interpretation of the law needs to fall into place with the current trend.

V. Conclusion

One argument in this paper is that the concept of “inherent patentability” as a threshold requirement cannot be considered in isolation. The “two-door” test, which is premised on the characteristics of the statute, is very instructive in appreciating this argument and its implications for the issue of inherent patentability. It is on this basis that it is concluded that the statutory provisions determine the issue of inherent patentability.

The issue of inherent patentability of business methods is centred in the area of the exemptions. Are they or aren't they exempted from patentability? On the one hand the *State Street* decision sought to lay to rest any ill-conceived notion that business methods are an exception to patentability. Nevertheless, business methods per se or as such do fall within the purview of the exemptions. This conclusion is drawn from a review of current practice. In this paper there is an attempt to formulate a stylized model of business methods simpliciter and business methods plus. The trend in the case law in the jurisdictions considered is that the former is not patentable while the latter is. The “plus” requirement has been fulfilled by the existence of a technical effect or advantage

Business Method Patents and “Inherent Patentability”? - A comparative analysis.

that need not be a physical device. The excepted case is Canada and there is also the *Pension Benefits* case decided under the EPC. The issue therefore needs to be revisited in these jurisdictions, as the legislation and agreement seem otherwise in keeping with the TRIPS agreement.

It was also observed that most of the legislation and the EPC predated the TRIPS agreement. When the application of the principles is examined with the current exception of Canada there is uniformity in application. The TRIPS agreement also uses language that is similar to the EPC. The deeming provision operates in a similar way to savings provisions in national legislation. This led to the conclusion herein that the national legislations require minimal amendments, as it seems that TRIPS was carefully crafted to be in line with these jurisdictions.

Generally, speaking therefore inherent patentability is a creature of statute. These jurisdictions have a degree of uniformity. This is good for the development of the law. Part of the issue relating to business methods is that in the digital era the methods are digitised methods of doing old things. The concern seems to be the human element. It is difficult to draw the line but the requirement of a technical effect seems to be a step in the right direction.