Comments of the

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

Regarding

THE ISSUES PAPER OF THE AUSTRALIAN ADVISORY COUNCIL ON INTELLECTUAL PROPERTY CONCERNING THE "PATENTING OF BUSINESS SYSTEMS" ISSUED IN JULY 2002

BACKGROUND

The American Intellectual Property Law Association (AIPLA) appreciates the opportunity to present its views on the document entitled "Patenting of Business Systems / Issues Paper" (the "Issues Paper") issued in July 2002 by the Australian Advisory Council on Intellectual Property (ACIP).

The AIPLA is a bar association of more than 14,000 members located primarily in the United States, but with members from sixty countries around the world. Our members are in private and corporate practice, in government service, and in the academic community, whose interests lie in the area of patent, copyright, trademark, trade secret, and other areas of intellectual property law. The AIPLA represents a wide and diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law related to intellectual property law. Unlike many other areas of practice in which separate and distinct plaintiffs and defendants bars exist, most intellectual property attorneys represent both intellectual property owners and alleged infringers.

We have reviewed the Issues Paper, and while many of the specific questions appear to be directed to Australian interests, we nevertheless submit the following general comments for your consideration.

GENERAL COMMENTS

Notwithstanding the recent economic downturn, the growth of the computer, software and Internet industries has been phenomenal during the past several decades. As these industries have matured, increasingly they have turned to the patent systems of various countries to protect their innovations. Initially, there were concerns about patenting computer-implemented inventions, and especially software-related inventions. However, over the years, the application of patent laws to software-related inventions has become well settled, and such patents have been applied for in rapidly increasing numbers each year. Recently, patents on business methods have been criticized using many of the same arguments presented in the past with respect to software-related patents.

(The AIPLA notes with interest that the Issues Paper relates to "business systems" and not to "business methods," which is exemplary of the confusion and ambiguity related to either term. In these comments, however, we will use the more common phrase "business methods" rather than "business systems." It is noted also that the definition of "business system" used by the ACIP, is based on the proposed "United States Business Method Patent Improvement Act of 2000," the predecessor of a bill which was roundly opposed by the user community at a hearing in April, 2001 before the House Subcommittee on Courts, the Internet and Intellectual Property, and whose definition was admittedly inserted by the bill's sponsor, as a "starting point" on which to try to find some consensus definition around which a discussion of issues might be made.)

We would assert that the incentives offered by the patent system (invent and disclose publicly, in exchange for a limited period of exclusivity over the invention) encourage innovation. Underlying this assertion is the assumption that at least a significant fraction of the innovators and developers of business methods are motivated by the same considerations as innovators and developers in other technologies.

Consequently, the AIPLA recommends that business methods should receive the same treatment under Australian patent laws as other technologies. The AIPLA sees no basis or need for discriminating against inventions related to business methods. Moreover, where implemented in software, business methods generally should be examined in the same manner as other software-related inventions.

On the other hand, the examination of business methods not implemented in software do raise a number of issues. These issues have been characterized as separating business apparatus from business methods, and business methods from applied technology. It is this latter issue that most patent systems have been struggling to resolve.

The ACIP comment that "business systems are directed to the way business information is obtained and used, rather than the development of new 'technologies'" is an indication of the semantic problems encountered in trying to deal with this issue. It is therefore not surprising that various patent systems have looked beyond the specific question of what is a business method as such, and what is applied technology, and instead have focused on whether an invention is within a "field of technology," is novel and involves an inventive step, i.e., in U.S. terms, whether an invention has a practical application as measured by the production of useful, concrete or tangible results, is novel and is non-obvious. A key aspect of this approach is the acknowledgement that abstract ideas are not patentable.

The AIPLA believes that it is inevitable that computer-implemented business method inventions obtain acceptance within the patent system of any country that intends to foster technological development in the computer, software and Internet industries. We believe that denying or delaying patentability for such inventions will result in the stagnation of domestic industries, and inhibit participation in the global economy. Accordingly, the AIPLA applauds the efforts of the ACIP in its attempt to rationalize and harmonize the patent laws of Australia in this regard.

The AIPLA would further like to offer our comments on the major issues raised.

The Economic and Intellectual Property Significance of Business Methods

The Internet industry, where most business method patents will be obtained, has unique needs for patent protection. Unlike other capital-intensive industries, there are few barriers to entry for competitors on the Internet. Thus, once a new innovation is developed and proven profitable, competitors can quickly and cheaply copy the innovation, absent patent protection for the innovator. Consequently, an unfair advantage inures to the copyist rather than the innovator. Patent protection for business methods rectifies this unfair advantage.

The AIPLA earlier reported in its "White Paper on Business Methods" that the strength of the U.S. economy depends upon strong patent protection for U.S. innovations. Specifically, the continued patentability for business method inventions was deemed to be vitally important for the U.S. for its domestic economy, as well as in competing in the global economy.

We would assume that Australia is no different, and that the strength of the Australian economy depends upon strong patent protection for Australian innovations. If Australia were to withdraw or reduce patent protection for business method inventions, Australian inventors will be left at a significant disadvantage versus their non-Australian counterparts. Accordingly, the issue of the patentability of computer-implemented business method inventions in Australia would appear to be one of more than minor economic significance.

Patents Encourage Innovation and the Dissemination of Knowledge

It is generally recognized, from centuries of use, that patent laws encourage innovation and result in the dissemination of knowledge, as the "quid pro quo" for the patent grant. There is no reason to believe that the granting of patents on business methods would run counter to this experience for other technologies.

The ACIP points out that an argument is often made "that the nature of business method innovations is such that many would have been developed without the incentive of exclusive rights, and that information on new business methods would be disseminated anyway because they are practiced in public." We would note that the same statement could be made of innovations in any field. What the patent system does is accelerate development and dissemination of information on all innovations. In the U.S., we have found that the contrary appears to be true.

When the decision in ***State Street Bank & Trust v. Signature Financial Group*** became better known in the U.S., and more business method patents began to issue, there developed a significant lobbying effort by businesses to implement 35 U.S.C. Section 273, which is entitled "Defense to infringement based on earlier inventor," and is also

known as providing "prior user rights." This section provides a defense to infringement if a party can show that they were secretly using the claimed method more than a year before the patent application was filed.

This indicates that, contrary to popular opinion, many business methods have not been practiced in public, but rather have been secretly used for years. Patentability of these business methods would encourage their disclosure to the public. Because patent applications are necessarily laid open to the public via publication, the implementation of business systems patents would contribute to the dissemination of heretofore secret knowledge to the public.

The Appropriateness of Australian Patent Laws and Practices

The AIPLA would encourage Australia to harmonize their patent laws with those of their global trading partners. As we have stated in our earlier publications, the AIPLA strongly believes that

- Business method inventions should be protected under the same framework of laws under which other inventions are protected.

- Any statutory change in either the levels or nature of available protection will cause more difficulties than benefits.

- No special test or interpretation of the patent laws should be applied to business method inventions.

We believe that most major countries require that an invention be "useful," and of "practical value," as well as meeting novelty and non-obviousness or inventive step requirements for patentability.

In the United States, the patent law has approached these issues with the following simple rules based on the decision in *State Street Bank* case:

- An abstract idea by itself never satisfies the requirements of eligible subject matter under 35 U.S.C. Section 101. However, an abstract idea when practically applied to produce a useful, concrete and tangible result satisfies Section 101.

- A practical application must be within the useful arts, employing technology if needed to realize the practical application.

- The test for practical application involves a determination of whether there is: (1) specific, substantial and credible utility in the specification; (2) whether the invention produces a "concrete" result; and (3) whether the result is tangible, that is more than merely a mathematical construct or a disembodied data structure, for example.

Accordingly, with regard to the specific Australian-focused questions in the Issues Paper, the AIPLA believes that:

- Australia need not include technical implementation as a requirement for patentability so long as abstract ideas are not considered patentable subject matter.

- The Ergas report's assertion that "most business schemes … will not pass the general tests for patent grant, …" will be true under the assumption that most such schemes are not novel or do not involve an inventive step. In this context, we note that, in the U.S., Japan and Europe, patents on previously existing business methods that are merely automated or programmed for the Internet are typically considered to lack novelty and/or inventiveness, and thus are not patentable.

- The TRIPS Agreement requires that member countries make patents available for any inventions, whether products or processes, in all fields of technology without discrimination, subject to the tests of novelty, inventiveness and industrial applicability (Article 27.1). Prohibiting the issuance or enforcement of patents on business methods, or Internet-related or software-related inventions, would clearly run afoul of those obligations.

- There has been no interpretation by a dispute settlement panel in the WTO regarding how the term "fields of technology" appearing in Article 27.1 of the TRIPS Agreement should be defined with respect to the definition of patentable subject matter. There is no question in our view, however, that computer-implemented systems, whether they are considered business systems or business methods, do fall within the "field of technology" as per Article 27.1 of the TRIPS Agreement.

- The TRIPS Agreement requires that member countries make patent protection available for twenty years from the filing date (Article 33). Limiting the terms of business method patents to less than twenty years from filing would clearly run afoul of these obligations.

- There should be no special patent examination procedures for business method patents. Instead, many of the concerns regarding patent protection for business methods relate to the effectiveness of the examination process. Business method patents could pose a challenge for examiners who have software backgrounds, but not business backgrounds. Accordingly, business experts should be included as examiners. Moreover, examiners must be effectively trained to respond to the increasing number of new patent applications on business methods.

- Challenges in examining patent applications on business methods often stem from a lack of access to pertinent prior art references. At the present time, the patent literature relative to business method patents is very sparse. Thus, the AIPLA encourages IP Australia to collaborate with other countries' patent offices, as well as the private sector to identify and develop additional sources of prior art material that is relevant to proper examination of these patents. The AIPLA also encourages IP Australia to intensify its cataloging of prior art documents for business methods and to provide examiners with access to appropriate search tools for accessing non-patent business methods prior art. While business method inventions have proven difficult to examine due to the lack of a neatly categorized collection of relevant information, it must be kept in mind that this is a transitory problem.

Public Awareness and Confidence in the Australian Patent System.

The AIPLA concurs with the ACIP that there is much confusion and lack of understanding on the part of the general public, and especially small businesses, about patents in general and business method patents specifically. We would encourage IP Australia and the Australian patent bar to undertake a program of education and public relations wherein more information about the rules and advantages of the patent system can be disclosed to all levels of business.

We would encourage IP Australia to coordinate more closely with the U.S., European and Japanese Patent Offices on the mutual availability and use of prior art databases to aid in solving the problem of information sources and search facilities.

As to the jurisdictional issues which are exacerbated by the global reach of the Internet and related telecommunications systems, we believe that the existing jurisdictional rules of most countries patent laws, including laws on contributory and induced infringement, provide an adequate basis for determining infringement issues related to such patents.

Conclusion

In conclusion, the AIPLA believes that the ACIP is performing an excellent function in fostering additional dialog on these issues. We believe:

- The patent system will accelerate the dissemination of information on business method inventions.

- Business method inventions should receive the same treatment under the patent law as other inventions.

- There should be no special patent examination procedures for business method patents.

- A business method invention that produces a useful, concrete and tangible result should be eligible for patent protection.

- Technical content or implementation should not be a requirement for patentability.

We welcome the opportunity to provide these comments and we would be delighted to provide further assistance and information if it is needed.