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Business Method Patents: International Developments

AUTHOR

Prashant Agrawal
Advocate
Delhi High Court
Delhi

Abstract

Business Method may be defined as "a method of operating any aspect of business enterprise". A business method is classified as a process because it is not a physical object like a mechanical invention or chemical composition. Business Method Patents being usually process patent in nature and the same can be interpreted as new and useful process being patented under this kind of patents. A business method patent confers upon its holder a set of exclusive rights with respect to a particular manner in which a business operation can be carried out. A business method patent confers upon its holder a set of exclusive rights with respect to a particular manner in which a business operation can be carried out. It constitutes a special category of patents which are conferred for operating business in an innovative way. Business method patents are most commonly associated with electronic commerce and other computer related supported infrastructures for carrying business operations.

1. INTRODUCTION

Today technology is changing expeditiously. New technical inventions take place in huge number. These new inventions open new field of subject-matter for protection under Intellectual Property Law. Intellectual Property law gives an umbrella protection to new inventors.

Business Method may be defined as "a method of operating any aspect of business enterprise". A business method is classified as a process because it is not a physical object like a mechanical invention or chemical composition. Business Method Patents being usually process patent in nature and the same can be interpreted as new and useful process being patented under this kind of patents. A business method patent confers upon its holder a set of exclusive rights with respect to a particular manner in which a business operation can be carried out.

2. BUSINESS METHOD PATENTS: CONCEPT & BACKGROUND

A variety of expressions including, the "business method patent", the 'business model patent" and the "business related patent" are used to portray the same entity, the term, "business model patent' predominates in Japan and the term, 'business method patent" has shown ascendancy in the USA.

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business in an innovative way. Business method patents are most commonly associated with electronic commerce and other computer related supported infrastructures for carrying business operations.

The patentability of business methods remained doubtful for a long period of time. They find their origin mainly with the United States. The main judicial thrust which favored business method patents was given in the case of *State Street bank v. Signature Financial Group.*, This case acts as an impetuous to the emergence of business method and software patents as prior to this case business methods were treated to be non-patentable. The decision in the State street bank was followed by a number of judicial decisions where business methods were de-recognised from being patented despite having no clear concept as to what constitutes business methods exception.

3. FEASIBILITY OF BUSINESS METHOD PATENTS FOR CORPORATE SECTOR

The opportunity to patent a successful business method could very well be the "pot of gold" for many companies that are currently using state-of-the-art business methods in their everyday operations. A business method patent may provide the opportunity for increased profits, increased success and an effective defense to competitors' threats.

The problem facing today's corporations, however, is preparation and awareness. The bottom line is that many companies are unaware of the world of patent protection for business methods. Companies may be unaware that they are sitting on both a goldmine and a strong sword to ward off potential infringement lawsuits. In today's fast-paced competitive business environment, attorneys dealing with intellectual property need to be aware of the trends within their industries and take steps to capitalize on the opportunities that may exist for their companies or clients.

a) Use of Patents to get ahead of Competitors: For any business the most important question is always to stay ahead of the competition. Convincing the government to grant you a monopoly is the key to longetivity and success. Getting a patent can make your business stronger because the patent keeps the competition away.

One of the highest regarded search engines, Google has a business method patent for establishing;

1) Which documents,
2) The ranks of those documents and
3) The generated set of those documents to be associated with a particular search query.

Because Google holds this patent, its competitors must stay away from its unique way of ranking web sites. Obviously, google revealed some of its business practices in exchange for a 20-year patent, essentially a permitted government monopoly.

b) Protecting key business methods with patents: Companies' new innovations must be effectively documented. Development needs to be documented in a meticulous manner to obtain the patents themselves and to defend against an attack by a third party claiming an infringement of its own patent.

By documenting and dating company innovations, the company can protect itself from potential patent infringement claims. Implementing these sorts of procedures can also protect valuable business processes, increase revenue through subsequent licensing agreements and propel a company into industry leader.

c) Awareness as the Key to Success : Companies that have simplified otherwise complex business procedures or that have unique methods in a competitive industry can create opportunities for clients if steps are taken to protect those business methods. By employing various strategies to safeguard these methods financial hardship and missed opportunities can be limited. However the critical factor involved in these opportunities is understanding that business methods can be patented and taking the necessary steps to implement a system to identify potential patents available to each company.

Lack of awareness not only exposes the company to the danger of losing an opportunity to develop moneymaking patent protection for its unique business methods, it also increases the risk that someone else will patent an identical business method first. This is a problem for two major reasons. First of all, it could expose the company to a patent licensing fee for an effective business method that the company has already been using, but failed to patent. The second danger is that a competitor could obtain a patent of a business method currently used by the company and either force them to stop using the method or enmesh them in expensive litigation over patent infringement.

d) The importance of business method patents now and in the future: Business method patents are extremely important to the companies that use those methods. The patents serve as a form of legal protection for the investments companies make to develop new and original business models. Patents prevent competitors from copying ideas without permission and compensation and patents also allow the patent holder to sue infringers for damages and obtain injunctions to stop them. In fact such infringement occurs frequently.

Amazon prevailed against Barnes & Noble for infringing on its "1-Click Shopping" patent, while Ebay lost a lawsuit to MercExchange who claimed that Ebay's "Buy It Now" system infringed on patents held by MercExchange. These cases serve as an important lesson showing that businesses must be aware of existing business method patents before putting new innovations to use in the marketplace.

4. BUSINESS METHOD PATENTS ACROSS THE GLOBE

Whether a business method is regarded as a patentable subject matter depends upon the legal jurisdiction. The World trade Organization's Agreement on Trade Related Aspects of Intellectual Property rights (TRIPS) does not specifically address the issue of business method patents.

a) United States : There is no exclusion for methods of doing business under US patent law. Patent applications for methods of doing business are examined using the same standards as any other invention.

Patents have been granted in the United States on methods for doing business since the US patent system was established in 1790. The first financial patent was granted on March 19, 1799 to Jacob Perkins of Massachusetts for an invention for "Detecting Counterfeit Notes". All details of Mr. Perkins invention which presumably was a device or process in the printing art, were lost in the great patent office fire of 1836. Its existence is only known from other sources.

Business Method was considered as an exception to patent protection until 1988. The first case of this kind was filed in the year 1908. In Hotel Security Case; the question was whether business methods can be said to be patentable. Here the case rejected the argument of it being capable of protection and created a per se exception to business methods. It was until year 1998 that this position was accepted.

The subsequent allowance of patents on computer implemented methods for doing business was challenged in the 1988 State Street Bank v. Signature Financial Group., the court affirmed the position of the USPTO and rejected the theory that a "method of doing business" was excluded subject matter. The court further confirmed this principle with AT&T Corp. v. Excel Communications, Inc.

The USPTO continued to require, however, that business method inventions must apply, involve, use or advance the "technological arts" in order to be patentable. This was based on an unpublished decision of the U.S. Board of Patent Appeals and Interferences, Ex Parte Bowman,. This requirement could be met by merely requiring that the invention be carried out on a computer.

In October 2005 the USPTO's own administrative judges overturned this position in a majority decision of the board in Ex Parte Lundgren,. The board ruled that the "technological arts" requirement could not be sustained as no such requirement existed in law.

In light of *Ex Parte Lundgren*, the USPTO

has issued interim guidelines for patent examiners to determine if a given claimed invention meets the statutory requirements of being a process, manufacture, composition of matter or machine. These guidelines assert that a process, including a process for doing business, must produce a concrete, useful and tangible result in order to be patentable. It does not matter if the process is within the traditional technological arts or not. A price for a financial product, for example, is considered to be a concrete useful and tangible result.

The USPTO has reasserted its position that literary works, compositions of music, compilations of data, legal documents (such as insurance policies), and forms of energy (such as data packets transmitted over the Internet), are not considered "manufactures" and hence, by themselves, are not patentable. Nonetheless, the USPTO has requested comments from the public on this position.

In 2006, Justice Kennedy of the US Supreme Court cast aspersions on business method patents when he commented that some of them were of "potential vagueness and suspect validity". This was expressed in a concurring opinion to the case of eBay Inc. v. MercExchange, L.L.C. There has been considerable speculation as to how this opinion might affect future business method patent litigation, particularly where a patent owner seeks an injunction to stop an infringer. In 2006, three Justices (Breyer, J., joined by Stevens and Souter, JJ.) dissented from the dismissal of certiorari as improvidently granted in Laboratory Corp. of Am. Holdings v. Metabolite Labs., Inc., arguing that *State Street* enunciated an erroneous legal test under which processes that the Supreme Court had held patent-ineligible would be held patent-eligible.

On October 30, 2008, the Federal Circuit handed down its long-awaited en banc decision in In re Bilski, the decision appears to hold patent-ineligible many business-method patents granted in the last decade. *Bilski* announces a two-branch test of patent-eligibility for processes. First, processes that transform an article from one state or thing to another are patent-eligible regardless of whether their use requires a machine. What is an *article*, however, is debatable. The transformations involved in smelting ores or vulcanizing rubber are clearly patent-eligible. Thus, substances such as ores and rubber, are *articles*. Processes involving transformation of signals representative of physical

parameters may also be patent-eligible. Processes involving transformation of financial data, such as that claimed in machine format in *State Street*, are probably patent-ineligible. Second, processes that do not make patent-eligible transformations are patent-eligible only if they are claimed as carried out with a "particular machine." What is a *particular machine* is unclear. It appears that a programmed general-purpose digital computer is not a *particular machine*, for this purpose. It is unclear whether a particular machine must be novel and unobvious, and specially adapted for carrying out the new process. The Supreme Court's decision in Parker v. Flook seems to call for that, but the *Bilski* court did not choose to opine on this point.

A cutting-edge issue in regard to business-method patents is whether they are patent-ineligible because they are not "technological," regardless of whether they meet the other criteria of patent-eligibility and patentability. The majority opinion in *In re Bilski* refused to hold business methods categorically ineligible on any ground. Judge Mayer's dissent, however, seconded by Judges Dyk's and Linn's concurring opinion, insisted that the US patent system is limited to technology and therefore it excludes trade and business expedients. Judge Mayer equated the US Constitution's limitation of patent grants to the "useful arts" to a limitation to technology, relying on case law stating that technology is the modern equivalent of useful arts. The Supreme Court of the United States granted certiorari in the matter of *In re Bilski* and the case was argued on November 9, 2009.

In the recent case of Bilski v. Kappos, it was held that "This court's precedents establish that the machine-or-transformation test is a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes," Justice Kennedy wrote. But it is "not the sole test for deciding whether an invention is a patent-eligible 'process.' And the majority rejected the "machine or transformation" requirement as a threshold test for patentability as laid down in *Re Bilski.*

b) Europe: In Europe a centralized European patent system was created when each of the member states of the European Community, as well as several other states, signed a treaty entitled the European Patent Convention. The major function of this treaty was to establish a single patent application procedure that is binding on all of the contracting states. In effect, an application can now be filed with the European Patent Office ("EPO") and, if successful, the resulting patent will be enforceable in each of the contracting states, just as if the applicant had filed successful applications in each state individually. The EPC also sets up a system for the adjudication of patent disputes. Appeals of EPO decisions are heard by the EPO "Boards of Appeal" and by the "Enlarged Board of Appeal," which is the highest court. Infringement actions, however, are handled by the national courts, based on national patent law.

The European Commission's Position on the Impact of Business Method Patents: The business method patents should not be allowed because:

1. Science is something different than business. Patent system and its principles are better for science and not for business.
2. Issuance of business method patents hampers free development of the Internet & e-commerce. Innovation comes from competition in an open and fair market and not from the monopolistic market.
3. Issuance of business method patents keeps the small and medium sized firms / individuals out of the game because big players will take out most of the patents and play the game as per their terms.
4. Issuance of business method patents does not stimulate innovation but rather it rewards existing monopoly right holders who do not distribute wealth and opportunities but rather it strengthens the present structure of power.
5. Every method of doing business over Internet (i.e. e-commerce) involves technology which can be patented individually. Neither every method/ way can be patented nor it is possible to license each of the associated patents. It will have

exorbitant costs and will be very risky and uncertain to launch such a product based on the business method patent in the market.

6. Subject matter for most of the business method patents is obvious and issuance of business method patents on such broad subject matter will harm other businesses. Grant of 1-click patent to Amazon, severely harming the other online trading businesses.
7. The global patent industry acts as an unregulated monopoly and it is unbalancing the system of property rights that underpin the software industry.

c) Australia : There is no general prohibition on the patentability of business methods in Australia. Their patentability is determined by applying the tests used to determine the patentability of any type of invention.

In a recent decision, Grant v. Commissioner of Patents the Full Court of the Federal Court of Australia held that a business method will only be patentable if it has a physical aspect, being a concrete, tangible, physical, or observable effect or phenomenon. Accordingly, 'pure' business methods, being those that do not have a physical aspect, are not patentable in Australia.

However, it has been suggested that Grant v. Commissioner of Patents was wrongly decided because the court failed to properly apply the existing law as set out in the decision of the High Court of Australia in National Research Development Corporation v. Commissioner of Patents and that the court should not have imposed a physical aspect requirement.

In a recent decision of Invention Pathways Pty Ltd; the Australian Patent Office held that mere use of a computer system may not be enough to secure allowance of business method claims. In *Invention Pathways*, a patent application was refused because the use of a computer was considered merely incidental or peripheral.

A patentable method must produce a "artificial state of affairs, in the sense of a concrete, tangible, physical, or observable effect", and that "a physical effect in the sense of a concrete effect or phenomenon or manifestation or transformation is required".

d) Canada : Business method patents are now permitted in Canada. On October 14, 2010, the Federal Court of Canada concluded that the famous Amazon.com "one-click" patent was patentable subject matter. The Court concluded that business method patents are permissible in Canada, under appropriate circumstances, and overturned the decision of Canada's Commissioner of Patents, who had rejected Amazon.com's patent.

In the *Amazon.com* decision, the Federal Court set out three conditions for patentable subject matter. First, the invention must not be a disembodied idea but a method of practical application. Second, the invention must be a new and inventive method of applying skill and knowledge. Third, the invention must have a commercially useful result.

e) India: In India, the 1970 Act, as amended up to 1999, had not provided one way or the other - which means that business method patents were, at least in theory, available to be granted. But the amendment of 2002 changed all that and how. Act 38 of 2002, viz. The Patents (Amendment) Act, 2002, with effect from May 20, 2003 specifically declared 'a mathematical or business method or a computer programme per se or algorithms, as not being an 'invention' within the meaning of the patent statute.

As per Section 3(k), business methods are not patentable per se. However they are patentable if a new method solves a "technical" problem and an apparatus/system is involved.

India is a developing economy. We are still unable to cope up with many threats like poverty, unemployment and population. In global market India is considered as a growing economy. Our youths are taking India to greater heights. All this reflect that we require a technological and economical boom. It needs to be mentioned that countries which have granted business method patents are developed countries. Conformance with

TRIPS is particularly slow in developing countries, notably Argentina, Brazil, India and Egypt. Further, I believe that granting a business method patent in India would impede technological growth in our country. Hence I am of opinion that business method patent should not be granted in India.

5. CONCLUSION

With boom in intellect ideas in corporate world it is required that these should be protected and respected. But fortification of these ideas by means of patent might not be profitable at this stage in developing countries. Grant of business method patent in US saw mixed reactions from experts of law. Copyright protection is insufficient to protect Business method. All Research and Development that is done requires that something more than Copyright protection. But patent over a particular invention protects it for a period of twenty years. Thus a patentee acquires an exclusive right over it (subject to Patent Act) and thus has right to prevent infringement of it during the said period. Thus in case of protection to business method the patentee would be in a position to stop the claimant of patent for a period of 20 years. Thus it would imply that business related methods/ideas would be retarded for such a long period. It can be thus concluded that Business method may be granted but it should be granted for a lesser duration of time and preference should be given to new companies.

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