

Summary Report*

Question Q 158

Patentability of business methods

The working guidelines established the parameters of the issue proposed for study by the AIPPI.

The development of information technologies and the recognition of their value, the movement in favour of patentability of software and the TRIPS treaty, which provides for the possibility of patenting any type of invention related to technology, has re-launched interest in the issue of patenting methods, particularly methods of conducting business or business methods.

This development has been particularly evidenced by the issuing of business method patents in the United States.

The issue met with great interest within the Association. 32 reports by national groups were addressed to the General Secretary (Germany, Argentina, Australia, Belgium, Brazil, Bulgaria, Canada, Chile, Korea, Czech Republic, Denmark, Ecuador, Spain, United States of America, Finland, France, Hungary, Ireland, Italy, Japan, Mexico, Paraguay, Netherlands, Poland, Portugal, Romania, United Kingdom, Singapore, Switzerland, Thailand and Venezuela).

Group reports not only responded in a comprehensive manner to the working guidelines, but also raised new aspects of the question.

For example, the Japanese group proposed entering into a discussion with respect to the definition of the notion of "technology", thus enriching the study of patentability of business methods.

Group reports discussed rules of law which are currently applicable in various jurisdictions and generally proposed orientations with respect to the protection of business methods by patents.

Group reports clearly demonstrated that the subject remains controversial.

No issue met with unanimous approval by the national groups.

A variety of responses, such as, for example, the issue of interpretation of article 27 of the TRIPS Treaty and its application to business methods gave rise to very wide differences of interpretation.

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Certain reports disclosed a failure to meet consensus within the national group either in favour of or against patenting business methods, which was reflected by equivocal responses.

1. Definition

The groups were invited to deal with this question on the basis that the term "business methods" must be understood in a broad sense, i.e., as including not only methods used in direct contacts between a business and its clients, but also all methods which allow a business to operate both internally and in its relations with suppliers and different government authorities.

The expression "business methods" thus covers all methods used in the conduct of business in the broad sense of the expression, as is illustrated by patents already issued in the United States.

While agreeing with this definition, the reports emphasised the necessity of making distinctions between different types of methods based on their intangible or technical nature.

For example, the Spanish group proposed distinguishing between software methods and methods which are not expressed in a software language.

The Chilean group proposed refining this distinction and defined three categories of methods:

- methods based on abstract or general ideas,
- methods comprised of different sequences of operations which may be written as software,
- and, methods which use material methods of an industrial nature which resolve technical problems during the course of industrial operations.

Finally, certain reports observe that terms usually used in national laws with respect to the protection of inventions are difficult to apply, due to changes in the economic environment.

These are terms such as: *industry*, *technology*, *invention* or *technical*.

Reports filed by the Japanese, Chilean, Spanish and German groups contain passages which are particularly interesting on this issue.

2. Current law in national jurisdictions

The groups were invited to present the state of positive law concerning patentability of business methods and the scope of existing protection.

Groups were also invited to disclose whether there existed means of protection of business methods other than invention patents within their country.

- a) A large majority of groups indicated that their national legislation prohibits patenting of business methods.

But the underlying reasons and the scope of prohibition of patenting of business methods differs widely from one country to another.

- Firstly, in certain countries the patenting of business methods is prohibited due to the provisions of the Munich Convention on the grant of European patents.

In these countries, the exclusion only covers business methods "per se".

According to group reports, this prohibition would be justified either by the lack of technical nature of such business methods (cf. the German or Finnish group reports) or due to their abstract nature (cf. the French group report).

The Belgian group considered that the prohibition is based both on the lack of technical criteria and the abstract nature of such inventions, but underlined that the prohibition is narrowly interpreted.

- Other countries, although not members of the European Patent Convention, also specifically prohibited patentability of business methods per se. This was the case for Brazil, Czech Republic, Bulgaria, Chile and Hungary.

- The Argentinean group reported that the patentability exclusion referred to all business methods. The exclusion is therefore wider in scope than in the case of European patents.

- The Japanese, Thai, Mexican and Polish groups stated that whereas no explicit exclusion prohibits patentability of business methods in their national legislation, these business methods nevertheless would not be patented because they do not meet the technical criteria.

The technical requirements applicable to inventions must be met in order to obtain the issue of a patent in these countries.

- The Canadian and Swiss groups underlined that the law does not specifically prohibit the patenting of business methods, but nevertheless cited case law which refused to allow patents in such cases.

- A special situation exists in Spain.

According to the report of the Spanish group, prior to Spanish law being brought into line with the European Patent Convention, business methods were patentable in Spain, and a number of patents which protect business methods are still in existence.

However, since ratification by Spain of the Munich Convention, business methods may no longer be patented in Spain, at least "per se".

- On the other hand, some groups reported that business methods may be patented in their country, as there is no specific exclusion of patentability. This is the case for Australia and Singapore.

The Australian groups nevertheless underlined that although there is no legal exclusion of the patenting of business methods, the case law has established criteria with respect to the patentability of inventions which appears to exclude business methods from patent protection.

But, in practice, the Australian patent office issues patents covering business methods.

This question has not yet been decided by the case law and it consequently cannot be concluded that such methods may actually be deemed as patentable in Australia.

The Singapore group stated that, prior to December 1995, the national law contained a prohibition against patenting business methods, but the prohibition was repealed in December 1995.

As a result, the Singapore group considered that business methods are not excluded from patenting.

- Only the American group stated that all business methods may be patented in its country and that no prohibition against patentability of business methods exists under their law.

The American group also indicated that any methods may be patented provided that they meet the usual criteria of patenting: new and useful, involving an inventive step (scintilla) and sufficiency of description.

The American group underlined that acceptance of patentability of business methods is not new in the United States, as the law has always allowed the possibility of protecting them by invention patents, but that the sudden increase in the number of patents in connection with such methods may be explained by changes in the economic environment, and particularly the advent of electronic commerce.

According to a report of the American group, business methods do not constitute a new category of invention but must be dealt with in the same manner as process inventions.

It should also be noted that in the great majority of countries, business methods and particularly business methods per se are prohibited from being patented either expressly by law or implicitly.

However, this prohibition appears to be restricted to business methods per se or considered alone, and does not prevent the patenting of business methods provided they form part of an application of a technical nature and produce a technical result.

- b) The groups were also invited to report on the protection of business methods by other legal techniques such as copyright, unfair competition or confidentiality.

A number of reports, while recognising that certain aspects of business methods may be entitled to such protection, underlined its restrictive nature, as such protection can only cover a specific formal expression and may not rely solely on the principle or functionalities of the method.

This position was expressed by reports filed by the Danish, Spanish, Hungarian and British groups.

The Dutch group report extensively cited national case law, which refused to allow protection of business methods, either under rules concerning the protection of artistic creations or pursuant to rules governing unfair competition and negligence.

The Dutch report concluded that it is particularly difficult in practice to obtain protection of business methods by way of copyright and unfair competition provisions.

The Swedish and British reports also underlined the role which is played by confidentiality agreements as practical instruments to protect business methods.

However, the British report stated that confidentiality is not a method which guarantees exclusive use of a business method.

Thus, it would appear that the majority of groups consider that means of alternative protection such as copyright, unfair competition or confidentiality clauses do not offer sufficient and effective protection for business methods. Only the Venezuelan group appears to hold the contrary view.

- c) Finally, the groups were asked to consider the hypothesis where patents governing business methods are issued in their countries and indicate whether preferred treatment is given to inventions as compared with the application of business methods over the Internet.

Only the Australian group consider that business methods used over the Internet would be entitled to the presumption of technicality of the invention, which would facilitate the obtaining of an invention patent.

However, the American group, who represent the sole jurisdiction where business methods are patentable, observed that there is no difference in dealing with business methods used over the Net and other business methods which are subject to patent applications.

Thus it would appear that no special treatment is reserved for business methods used over the Internet as compared with other business methods when considering whether such methods may be protected by patent.

- d) The groups were also asked to indicate whether in practice their courts dealt differently with patents covering business methods as compared with patents covering other types of inventions.

Due to the fact that patents covering business methods have not actually been the subject matter of litigation proceedings other than in the United States, only the American report could be taken into consideration in response to this question.

The American group stated that the courts have never made a distinction between the protection of business methods and the protection of other processes relating to invention patents.

That would confirm that business methods included as processes are protected in exactly the same manner as traditional industrial processes.

This is the state of positive law in the countries where groups responded within the course of the work session.

3. Group opinions: the future of patentability of business methods

In this part of the work session, the groups were invited to express their opinion concerning the advantages of protecting business methods by way of patents and the applicable conditions and scope of such protection.

Finally, the groups were also invited to present comments on any other aspect or problem with respect to patenting business methods which had not been directly or indirectly raised in the working guidelines.

- a) The groups were invited to respond to the question of determining whether the patenting of business methods was desirable.

The responses to this question in principle were widely varied.

Even the groups who were not opposed to patenting business methods underlined the complexity of the problem.

The German group, who appeared in favour of restricting the granting of patents solely to inventions of a technical nature, underlined that the patentability of business methods, including management and organisational methods, would be a clear rupture with traditional patent law.

The Canadian group considered that, in order for a method to be patentable, it must give rise to a material change, but also added that this requirement is satisfied where methods use computers, as the structural change in computer data would be sufficient to meet the condition.

However, certain groups also recognised that the patentability of business methods would be an appropriate response to the changing economic environment, and that

a new business method may, if it meets the usual conditions of patentability, constitute an invention where a patent may be granted.

This was the opinion of the Italian, Swedish, Argentinean, Australian, Irish, Mexican, Romanian, Portuguese, Swiss and British groups.

- Certain groups accepted the patentability of business methods, provided that such methods were technical in nature and fell within the traditional definition of technology, i.e. science and techniques.

This was the opinion of the Japanese, French, Finnish, Czech, Brazilian and German groups.

- The Hungarian group report stated that they were unable to come to a majority consensus.

- The group report from Spain, where business methods existing in Spain prior to application of the European Patent Convention were granted protection, stated that the issue was highly complex, and proposed excluding abstract methods from patenting, i.e., business methods per se, and to solely allow patenting for methods which are capable of being translated into software form.

The Chilean, Spanish and Dutch groups contained very long exposés demonstrating the negative effects and risks which might be triggered by patenting business methods as such.

According to these reports, the resulting restraint of trade would outweigh incentives to progress created by patents issued to cover business methods. According to these same reports, this creates a further climate of insecurity due to the highly abstract nature of such methods.

Finally, the Dutch report also underlined that the granting of invention patents for abstract creations will abolish frontiers between the national intellectual property rights jurisdictions and expressed concerns that this would potentially lead to the step of protecting such methods by manufacturing or commercial trademarks.

- However, other reports also recognised that even patenting of business methods per se may act as an incentive to progress and meet the demands of the new economic environment.

This was the opinion of the Italian, British and Australian groups.

- The American group, which represents the jurisdiction where business methods are patentable, saw no down-side to allowing such patents.

The foregoing discloses the wide divergence of opinions concerning the issue of patenting business methods.

However, provided such methods contain a technical component, patentability raises no difficulties.

There remains however the issue of defining exactly what constitutes the technical component of a method:

- should the word "technical" always be understood in its traditional sense, i.e., as being linked with science and technology, or should it be understood in a much broader sense to cover all methods which procure results, regardless of their field of application and the nature of the result, i.e., as a synonym of practical application?

b) The groups also had to address the issue of a potential prohibition of patentability of business methods pursuant to article 27 of the TRIPS treaty, which lays down the principle of granting patents for all technological inventions.

Here again, a wide variety of opinions emerged.

- A number of groups interpreted the expression "technology" in its broader sense and considered that under these conditions the exclusion of business methods from patentability contradicts the spirit of article 27 of the TRIPS treaty.

This was the opinion of the Italian, American, Romanian, Irish, Mexican, Argentinean, Australian, Bulgarian and Czech groups.

- On the other hand, the Canadian, Finnish, Brazilian, French, Polish, Danish, Belgian, Chilean, Swedish, Swiss and Singapore groups considered that any such exclusion would not contradict the provisions of article 27 of the TRIPS treaty. These groups considered in fact that the word "technology" only requires that inventions have a technical component in order to be patentable and that under these conditions the exclusion of patenting of business methods per se is not contrary to the intent of the TRIPS treaty.

- The reports filed by the German, Japanese, British, Hungarian, Portuguese and Dutch groups underlined the difficulties of interpretation of the TRIPS treaty and indicated that no firm opinion could be formulated on the issue.

The Japanese group proposed that the definition of the word "technology" be provided by the AIPPI in order to overcome this difficulty of interpretation.

It will be the Commission's responsibility to rule on the advisability of proposing a definition of this expression in order to express an opinion with respect to the application of article 27 of the TRIPS treaty to decide on the issue of patentability (or exclusion of patentability) of business methods.

c) The groups were asked to consider, in the event that even business methods per se were patentable, whether they should be subject to the same patent registration requirements as other inventions.

Generally, the groups saw no reason to distinguish business methods from other patentable inventions in the event that such business methods were entitled to patent protection.

The Brazilian group considered nevertheless that this question required a special study and proposed the introduction of a transitional period which would allow a practical assessment of how such methods should be protected prior to determining firm rules in connection with the regime of protection for such patents.

- The groups expressed almost unanimous approval of the AIPPI view that any patentable inventions should be dealt with in the same manner as other categories of inventions with respect to conditions for patent issue and scope of protection.

- d) Due to the increasing role of the Internet in contemporary economies, the groups were asked to what extent adapting known business methods to the Internet should impact on the patenting of inventions.

The groups responded that the examination of patentability should be subject to traditional rules:

- novelty, non obviousness, industrial application (utility)

and that there is no reason to favour inventions applied to the Internet.

The Australian group clearly indicated that the application of business methods to the Internet should not be considered in itself as an invention.

However, the contrary opinion was expressed by the Brazilian group who considered that application over the Internet under certain circumstances may indicate the scintilla of invention and should be reviewed on a case-by-case basis.

- e) The groups were asked to provide their opinion with respect to the scope of protection granted by patents issued to cover business methods.

This question concerned both the assessment of infringement including the application of the doctrine of equivalents and the assessment of damages and burden of proof.

- Here again, the majority of groups considered that on the issue of scope of protection, there was no particular reason to grant business methods a different scope of protection from that enjoyed by other patentable inventions.

This position concerns both the assessment of infringement and the scope of protection.

The American group underlined that although the doctrine of equivalents has not been raised during litigation before the courts, nothing prevents the courts seized with a claim of infringement of a patent in relation to a business method from applying the doctrine of equivalents.

This opinion was also expressed by the Australian, Brazilian, Dutch, Portuguese, British and French groups.

- Certain reports considered that, contrary to the patents of industrial processes, protection should be restricted to the method itself and that any such patent should not be expanded to include products or services marketed using the patented method.

The German group was of the view that protection should be restricted to the method and that products or services should not enjoy the protection granted by the invention patent.

This was also the opinion of the Dutch, Hungarian, Portuguese and French groups.

The French group underlined that the connection which exists between the patented method and the products or services marketed by such method is too indirect to allow for the solution which is used in the patenting of processes.

- However, the contrary position was expressed by the reports of the American, Irish, Brazilian, Swedish and Italian groups.

The British group also proposed that this protection should be extended to products and services directly marketed with any such method.

A similar opinion was expressed by the Australian and Finnish groups who accepted the protection of products and services marketed pursuant to business methods provided that such products or services formed part of the invention.

- The issue of assessing the scope of protection granted by a patent of business methods gave rise to the problem of assessing and quantifying loss in the event of infringement.

The groups were quasi-unanimous in stating that traditional rules concerning compensation for loss should apply to patents covering business methods.

This was the opinion of the Japanese, German, American, Irish, British, Italian, Chilean and Mexican groups.

However, the Romanian group was of the view that inventions which were comprised of business methods raised special problems which are necessary to examine in-depth, such as the question of assessing loss in the event of infringement of any such patents.

On this issue, the Dutch report stated that in the examples which were reviewed by members of the group, traditional rules with respect to compensation of loss arising from acts of infringement could apply.

It would therefore appear that there is no substantial reason to change the rules concerning compensation of loss arising out of infringement of patents covering business methods.

- f) The groups were also asked to consider whether, in the case of patenting business methods, the burden of proof should be reversed, since the TRIPS treaty had provided for such a reversal of onus in cases of process patents.

The groups were very divided on this issue.

Several reports stated that, due to the difficulty in obtaining evidence of infringement of business methods, the reversal of the burden of proof was necessary for such patents to be effective.

This was the position of the French, American, Romanian, Argentinean, Portuguese, Paraguayan, Thai, Swedish, Australian, Finnish, Italian, Irish, Japanese, Brazilian and Spanish groups.

However, the British group observed that it would be very difficult in practice to satisfy the very restrictive conditions of article 34 of the TRIPS treaty, which provide for reversal of the burden of proof, if the conditions precedent contained in this article and particularly the requirement of obtaining a product, are narrowly interpreted.

The same opinion was expressed by the Belgian, Hungarian, Dutch and Mexican groups.

Thus, the issue to determine is whether the conditions of article 34 of the TRIPS treaty should be narrowly interpreted, which would imply their application to patents covering business methods, or whether this interpretation should be broad and liberal.

If the TRIPS treaty were restrictively interpreted, an amendment would likely be necessary to allow for application of the principle of reversal of the burden of proof covering business methods.

- g) The groups were finally invited to submit any other observations or comments they deemed useful for review of this question.

The responses and suggestions of groups were widely varied.

- The Australian group underlined the practical difficulties of reviewing patentability of such inventions and the necessity of training examiners.

The same opinion was expressed by the Danish group who considered that business methods comprised a new field of patents. It would be very difficult for the patents office to correctly assess whether patent conditions have been satisfied.

- Other groups underlined the difficulty of granting patents with respect to business methods applicable to the Internet due to the world wide nature of the information transmission networks.

This observation was expressed, among others, by the Finnish group.

- The Australian group observed that the question of liabilities of Internet access servers may arise and proposed that liability for patent infringement should not be incurred.

- More fundamentally, the British group observed that the patenting of business methods which it approves would quite likely lead to an amendment of the definition of industry and of technology.

This demonstrates the necessity of a more in-depth review of the issue of protection of intangible creations and such studies were called for by the Portuguese, Bulgarian, Brazilian and Chilean groups.

The AIPPI should be ruling on the question of determining whether intellectual property law is prepared to accept the notion of patentability of business methods or whether the review of this issue should continue at least with respect to certain aspects.