

Business Processes and Patent Law

Celia Wolf

As someone who has spent the better part of my professional career directly involved in protecting tangible products, brands and intellectual property, I have always been interested in the ways in which our legal system has applied the underlying principles of patents, trademarks, and copyrights. So, understandably, a recent New York Times article titled “Justices Weigh Issue of Patenting Business Methods” caught my eye and got me to thinking about how those principles are currently being applied to business processes and software...

The idea that an inventor should be granted a period of time during which he or she has the right to exclude others from making, using, offering for sale, or “selling” an invention in the United States or “importing” the invention into the United States is enshrined in the US constitution, which states that the Federal government can grant patents to individuals to encourage the development of “useful arts.” In 1799, soon after the US Patent Office was established, Jacob Perkins was granted a patent for a method of detecting counterfeit notes. Although the details were lost in a fire in the US Patent Office in 1836, we assume that Mr. Perkins created a device that assisted in the detection of the notes.

We assume so because the US Patent Office had traditionally held that there was a “business method exception” that made abstract processes unpatentable. Thus, in 1950, the office rejected a patent that would have protected a particular method of doing “blind tests” to determine which blends of whiskey consumers preferred.

In other words, the US Patent Office discriminated between “methods” associated with devices or machines and “abstract methods” that did not depend on a technical device. That distinction began to break down in the 1980s as more and more companies applied for patents for methods or processes that were dependent on general purpose computers, and eventually, on the Internet. Gradually, the patent office began to include some methods or processes implemented on computers as patentable.

This was challenged in the US courts in 1998, and a lower court found that the US Patent Office’s new practices were acceptable. Specifically, the court rejected an appeal that argued that the US Patent Office could not grant a patent for a “method of doing business.” Since that ruling, several thousand business methods, mostly associated with business methods executed on computers, were granted. Most were granted to financial service firms – to protect investment strategies, or to software firms – to protect methods used in conjunction with the Internet. During this same period, appeals continued to be filed against this ruling and the issue gradually rose to the Federal Circuit Court.

On October 30, 2008, the Federal Circuit Court over-ruled both the US Patent Office and the lower court when they handed down the Bilski decision, reasserting the earlier principle that “business methods or processes” could not be protected by patents.[1] The Federal Circuit’s decision was 9 to 3, and the opinion of the Chief Judge, Paul Redmond Michel, stated that the issue was whether the claimed “method” was a patent-eligible “process,” as defined by the US patent statute (35 U.S.C. § 101) or not. In effect, the Federal Circuit court returned to the earlier position of the Patent Office stating that a patent must be either “tied to a particular machine or apparatus, or transform a particular article into a different state or thing.” What exactly constitutes a “particular machine” was not clear, but the court did make it reasonably clear that a general purpose computer does not qualify.

Then, on June 1, 2009 the Supreme Court agreed to hear Bilski’s appeal, and they will look at whether business methods are patentable articles if intangible steps are not tied to a particular machine or apparatus or don’t transform a particular article into a different state or thing.

It is difficult to imagine that the Supreme Court will render a more favorable opinion of the *Bilski* case than the Federal court did, however there is clearly uncertainty regarding the viability of business method and software patents. And, the outcome of the decision will have broad reaching ramifications as the decision could not only limit future patent applications but could also invalidate existing patent licenses.

As an aside, it's worth noting that business process frameworks, like the Supply Chain Council's SCOR framework, are protected with registration and with copyrights, but not patents. In other words, the text documenting the framework is protected as a creative work, but no claim is made that the Supply Chain Council invented or owns the way in which actual business processes can be assembled.

Moving beyond the US, the European Patent Convention holds that "schemes, rules and methods for ...doing business" are not to be regarded as inventions and are not patentable. The European convention goes on to say that a new method can be patented if it solves a technical problem rather than a purely administrative one. This is similar to the position taken by China and India.

In Canadian law, pure business methods cannot be patented. The Canadian courts have held that the Canadian patent office is subordinated to British Common Law and "It is hereby declared that the following (among other things) are not inventions for the purposes of this Act, that is to say, anything which consists of...a scheme, rule or method for performing a mental act, playing a game or doing business, or a program for a computer."

Australia, like Canada and the US, seems to have flirted with recognizing "business methods" implemented on a computer, and now seems to be moving away from that position.

In Japan, on the other hand, business methods are recognized and accepted as patentable. Japanese law says that the business method must contain a technical aspect, but holds that this requirement can be satisfied simply by claiming that the "method" will be implemented using a computer.

Obviously, every day businesses are becoming more and more dependent on computers. Business processes and methods are increasingly being implemented by software programs that support employees responsible for executing company processes. Attempts at drawing a clean line between a method used in conjunction with a specific machine, like a die punch or a mechanical calculator which is patentable, and a method implemented by a general purpose computer, which is not patentable, will continue to challenge the courts, and the upcoming Supreme Court decision won't be the last ruling. Expect more patent office rulings and court decisions in the coming years as new technologies and methods continue to change the way we live, world-wide.

In the meantime, business managers should assume that "business methods" implemented on computers are not likely to be patentable, and should focus on other ways to protect processes to maintain a competitive edge.

Author

Celia Wolf is the CEO and Publisher of BPTrends and the Managing Director of BPTrends Associates.

References

[1] *in re Bilski*, 545 F.3d 943, 88 U.S.P.Q.2d 1385 (Fed. Cir. 2008), is an *en banc* decision of the United States Court of Appeals for the Federal Circuit (CAFC) on the patenting of method claims, particularly business methods.