Business patent overhaul

A U.S. appeals court has issued a landmark ruling that changes the law relating to the patentability of business methods. What effect will this have on Canada, and on the worldwide knowledge economy of the future?

By Daniel Casciato
Photography by Mark Stegel

In 1998, the United States Court of Appeals for the Federal Circuit (CAFC) issued a monumental ruling in a case known as State Street Bank, essentially green-lighting the controversial patenting of business methods. Mere weeks later, a deluge of software and business method patent applications began pouring into the U.S. Patent and Trademarks Office (USPTO), and the debate over the propriety of State Street was on.

Since that ruling, the USPTO has been trying to curtail the flood by narrowing the interpretation of what constitutes “patentable subject matter.” That effort received a major boost in October 2008, when the CAFC reconsidered business method patents in an en banc ruling called In Re Bilski. That case held that to be eligible for patent protection, an invention must be tied to a particular machine or apparatus, or it must transform a particular article into a different state or thing. (See sidebar, p. 37, for more details on these rulings.)
Alistair Simpson, a Canadian- and U.S.-qualified lawyer with Smart & Biggar LLP in Toronto, notes that over the past several years, an increasingly vocal group of people has expressed the view that many aspects of the United States patent law system are broken. While reform of the U.S. patent system by legislation from the U.S. Congress has so far failed to materialize, several court decisions recently released by both the CAFC and the United States Supreme Court have attempted to address some of the criticism.

“This ruling may assist in the overall goal of improving the U.S. patent system in general,” Simpson says. “It may lead to the elimination of those types of contentious business method patents that people previously pointed to when faulting the U.S. patent system.”

Overly broad

A major criticism of business method patents has been that some of those patents are very broad in their scope of protection, often affecting entire business sectors.

“When an application is filed in the USPTO, the Patent Office examiner conducts a prior art search,” Simpson says. “To do that, they have a certain set of tools they use to look for prior art, and then they make a determination, based on the prior art, whether the patent application meets the requirements of patentability.”

One of the problems for the USPTO post-State Street was the large influx of new applications directed to business methods. “They often didn’t have the tools that they needed to properly search for prior art business methods,” he says. “Therefore, some business patents were issued for methods that people previously pointed to when faulting the U.S. patent system.”

Eugene Gierczak, Miller Thomson LLP, Toronto

“State Street historically reversed the common indication prior to that case whether a company can patent a business method. There was a need to bring it back to focus, and that’s why we had Bilski.”

Gierczak says that the State Street decision was a good start, but the test of what was patentable was too broad. “There was a need to bring it back to focus, and that’s why we had Bilski.”

Bilski seems poised to have an enormous impact on 21st-century patent law, and its ramifications will even be felt in Canada. But Eugene Gierczak was not surprised by the decision. “Business method patents in the U.S. were excluded in their definition of what was patentable for a large part of the last century,” says Gierczak, a lawyer with Toronto-based Miller Thomson LLP. But with the rise of a knowledge-based world economy over the last 20 years, the pressure grew to allow the patenting of business method concepts.

Bruce Stratton
Dimock Stratton LLP, Toronto

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that seemed to cover what people had been doing for a long time before the patent application was filed.”

Bruce Stratton of Toronto-based Dimock Stratton LLP, a member of the Patents Subcommittee of the CBA’s National IP Section, thinks *Bilski* is a return to a more complex way of looking at patentability.

“*Bilski* is clearly far more in depth and has more complexity to it than *State Street*,” he says. “It’s quite striking how different the two rulings are. It’s clearly seen as a benchmark decision because of the *en banc* format. The *Bilski* ruling will be considered in any kind of software or business method patent opinion in the U.S.”

Courts in the United States have been trying to synthesize business method patent law and come up with a single formulation that’s fundamental to looking at business methods or software process patents. “It’s at least the third major test...
La révolution des brevets américains

La Cour d’appel des États-Unis a rendu un jugement qui change la brevetabilité des méthodes d’affaires. Quel effet aura-t-il au Canada et ailleurs dans le monde?

En 1998, la Cour d’appel du circuit fédéral des États-Unis (CACF) a rendu un jugement important dans l’affaire State Street Bank, qui donnait le feu vert au brevetage des méthodes d’affaires. À peine quelques semaines plus tard, un déluge de demandes de brevets pour des méthodes d’affaires et des logiciels ont commencé à arriver au Bureau des brevets et des marques de commerce des États-Unis (BBMC).

Depuis cette décision, le BBMC a tenté de contenir le flot en limitant l’interprétation de ce que constitue un élément brevetable. L’effort a reçu un coup de pouce majeur en octobre 2008, lorsque la CACF dans In Re Bilski a tranché que, pour être éligible à la protection d’un brevet, une invention doit être attachée à une machine ou à un appareil, ou elle doit changer l’état d’un élément en particulier.

Bilski semble sur le point d’avoir un énorme impact sur le droit des brevets du 21e siècle, et ses ramifications seront perçues partout dans le monde — incluant le Canada.

« Les méthodes d’affaires aux États-Unis étaient exclues de ce qui est brevetable pour une bonne partie du dernier siècle, explique l’avocat à la firme de Toronto Miller Thomson. Mais avec la montée d’une économie du savoir au cours des dernières 20 années, la pression a monté pour permettre de brevet de concepts de méthodes d’affaires. »

« State Street permettait les brevets de méthodes d’affaires dans la mesure où elles produisaient des résultats tangibles et concrets, ajoute-t-il. Le jugement a ouvert une porte toute grande pour de nouveaux brevets. »

« Il y avait un besoin de l’encadrer davantage, et c’est pourquoi nous avons eu Bilski », conclut l’avocat.

Et le Canada?
Ni State Street ni Bilski n’ont d’autorité au Canada, bien entendu. Mais Bruce Stratton, de la firme torontoise Dimock Stratton et un membre du sous-comité des brevets de la section de propriété intellectuelle de l’ABC, a tout de même suivi ces développements avec attention.

« Au Canada, nous sommes affectés par les approches qu’adoptent les cours américaines, dit-il. Les avocats spécialisés en brevets au Canada les rédigent en gardant un œil sur ce qui se fait aux États-Unis. Il n’y a pas eu beaucoup de décisions récentes au Canada sur le sujet. Ainsi, un bon nombre des politiques sont inspirées du Bureau américain des brevets des cours américaines. »

« Notre bureau des brevets a toujours résisté à l’approche de State Street, fait néanmoins remarquer M. Stratton. Nous avons toujours été plus conservateurs, en comparaison avec l’interprétation large que semblait suivre les États-Unis pendant un certain temps. » Depuis Bilski, le régime américain des brevets en matière de logiciels et méthodes d’affaires se rapproche de celui en vigueur au Canada.

Impact Global
Alistair Simpson, un avocat qui pratique des patents et look at patents with at least one eye on the U.S. There are not many current decisions in Canada from the courts on this topic. So a lot of the policy is being driven from the United States Patent and Trademark Office and the U.S. courts.”

Nonetheless, Stratton doesn’t think Bilski will have a large direct impact on Canadian law. “The two-part U.S. test for software and business methods is fairly close to the Canadian test our Canadian patent office has been applying,” he says.
“Our patent office has always resisted using the State Street approach. We have been more conservative compared to the broad, open-door policy that the U.S. seemed to be following for a while. The closing of the door by the U.S. court [in Bilski] is making the opening for inventors to patent software and business methods more similar in both countries.”

Simpson thinks it’s difficult to determine the precise impact, if any, Bilski will have in Canada. “Although U.S. decisions are not the binding authority for Canadian courts, what we have seen recently, more than in the past, is that Canadian courts, when dealing with patent cases, are more frequently looking to U.S. decisions for guidance and citing them,” he says.

In fact, there have been several signs that the Canadian Patent Office had started to adopt a somewhat more liberal approach to business methods than in the past.

“Our Patent Appeal Board has, in the past few years, issued some decisions suggesting a loosening of the restrictions on the patentability of business methods in Canada,” Simpson says. “However, the impact of Bilski appears likely to significantly curtail at least certain types of business methods from patent protection in the U.S. This may well influence Canada to put the brakes on any further expansion in the patenting of business methods here.”

Gierczak believes that Bilski will have an indirect impact because a lot of companies want to make sure they are consistent with the U.S. “In Canada, inventions are defined as ‘any new and useful art process, machine manufactured or composition of matter.’ It’s a broad category. More companies will be careful in how they define their invention.”

**Possible invalidation**

Gierczak also expects the new “machine-or-transformation” test set out in Bilski will be a substantial hurdle for many pending business method and software patent applications, and casts doubt upon the enforceability of many issued patents.

“I think some of these patents will be invalidated as a result of this decision,” he says. “If they are poorly written, they definitely will be invalidated. In some cases, some of these business method patents were used to attract investors, and some of these investments may be in jeopardy as well.”

Robert Plotkin, a patent lawyer in...
Whether arguing before the Supreme Court or preparing an application for the Trade-marks Office, the partners and associates at Dimock Stratton bring experience, perspective, insight, and attention to detail to the job. It’s an approach that has won the respect of peers and clients alike and generated the kind of consistent results that recently earned us the distinction of *MIP Canadian Patent Contentious Firm of the Year 2008*. When you need a top IP partner, contact the team at Dimock Stratton.

**Global impact**

Simpson says the U.S. had gone much further than other jurisdictions in granting business method patents. “When you look at Europe, there may have been some slight liberalization, but for the most part Europe has not expanded significantly the ability to patent business methods,” he says. “So I think what you may be seeing now is U.S. law moving closer to where the rest of the world is positioned. And at this stage, it seems very unlikely that Europe will open the floodgates.”

Simpson believes that *Bilski* might increase the degree of harmonization in patent laws between jurisdictions. “Harmonization is a hot topic, and is seen by many to be a real benefit,” he says. “It makes life quite difficult for those seeking to protect their inventions internationally if the patent laws in each country are very diverse. Over the past couple of decades, we have seen various initiatives to try to move the whole international patent law system towards a more unified, harmonized approach.”

Stratton doesn’t believe that *Bilski* will be the last word on this subject from the U.S. courts. “The *Bilski* case didn’t answer one question: if you have a general-purpose computer that is programmed in a specific way, is that process tied to a particular machine or not?” he says. Many cases will interpret what *Bilski* said, but that important unanswered question will have to be dealt with later.

Stratton adds that there’s a potential invitation to the U.S. Supreme Court to revisit this area to give it its blessing — or not. “Most of these appeal cases are not usually the last words. Whether the test that the Court of Appeals has come up with here will incite the U.S. Supreme Court to revise or approve the appellate court approach, is a difficult question to answer,” he says.

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