

Blakes Bulletin

Intellectual Property

Back in Business – Canadian Federal Court Rejects Patent Office Prohibition of Business Method Patents

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On October 14, 2010, the Federal Court of Canada issued its much-anticipated decision in *Amazon.com Inc. v. The Commissioner of Patents*, wherein the patentability of “business methods” has been confirmed.

HISTORY

The decision relates to Amazon.com’s “one click” patent application entitled “Method and System for Placing a Purchase Order Via a Communications Network”. The invention enables a previously registered online customer to make subsequent purchases over the Internet with a single action (i.e., “one click”). The claims of the application were directed to both the method and system aspects of the invention. Despite finding the claims of Amazon’s application to be novel and non-obvious, the Commissioner of Patents rejected them for not comprising patentable subject matter on various grounds.

Specifically, the Commissioner rejected the claimed invention for:

- (i) failing to comprise a physical object (e.g., a machine) or a change in the character or condition of a physical object;
- (ii) comprising a business method, which the Commissioner deemed to be “traditionally” excluded from patentability; and
- (iii) failing to be “technological” in nature.

Prior to the Commissioner’s rejection of Amazon’s claims, business method claims were not distinguished from other method claims. The Canadian Manual of Patent Office Practice (MOPOP) in fact stipulated that there was no authority to preclude the patenting of business methods.

DECISION OF THE COURT

Amazon appealed the Commissioner’s rejection to the Federal Court, which held the Commissioner’s reasoning to comprise a “fundamental error in law” and addressed each of the rejections in detail.

(i) Physical object or change in character/condition of physical object

The court stated that the Commissioner’s requirement for “physicality” resulted in an overly restrictive definition of an “art”. It is interesting to note that the Commissioner’s definition of “art” was very similar to the “machine or transformation” test developed under U.S. law. This was not overlooked by the court, which noted that the exclusive use of the “machine or transformation” test was recently rejected by the U.S. Supreme Court in the *Bilski* decision.

The court stated that the correct test for a patentable art is that it must:

- a) have a practical application;
- b) apply skill and knowledge in a new and inventive manner; and
- c) have commercial utility.

(ii) Business method exclusion

The court flatly rejected the Commissioner’s finding that business methods *per se* do not constitute patentable subject matter and stated that there is no basis in Canadian jurisprudence for such exclusion. The court essentially held that a business method must be assessed like any other invention but clarified that “a mere business scheme will have no practical embodiment and, like any other abstract idea or theorem, will of course be non-patentable”.

(iii) Technological requirement

The court also rejected the Commissioner’s introduction of a “technological” requirement as being “unnecessary” in the Canadian patent regime and as having no basis in Canadian jurisprudence. The court noted that the Commissioner’s reliance on U.K. and European precedent in developing this requirement was not in line with the Canadian *Patent Act*.

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COMMENTARY

The Commissioner's decision in the *Amazon* case created a considerable degree of doubt concerning the ability to patent business method and software inventions in Canada as well as the validity of patents previously awarded for such inventions. Following the Commissioner's decision, the Canadian Intellectual Property Office (CIPO) very quickly took the step of amending the MOPOP to specifically state that business methods, and any other "non-technological" art or process, do not constitute statutory subject matter for patentability. Further, the Commissioner's decision has routinely been used by examiners as an authority for rejecting both method and system claims that were deemed to be directed to business methods.

The Federal Court has now resolved this situation by very clearly finding the Commissioner's position to be incorrect and as lacking justification under Canadian law. The court unequivocally stated that business methods do constitute patentable subject matter and that such methods must be evaluated for patentability in the same manner as any other invention. Also, by rejecting the Commissioner's "technological requirement", this decision arguably serves to position the Canadian criteria for patentability of business methods, and software inventions in general, closer to those of the U.S. than of the European Patent Convention.

In its decision, the court strongly rebuked the Commissioner for creating a new test for assessing patentability based on a "policy decision" and emphasized that such action affected not only Amazon but "many who navigate our patent system". The court found that the Commissioner is bound by the existing patent regime and Canadian jurisprudence, and does not have the discretion for establishing new criteria for patentability.

It is interesting to note that the court found the Commissioner's reliance on U.K. and European jurisprudence to be "troubling and even problematic" on the basis that the patent systems of such jurisdictions

have "fundamentally different legislation than Canada for determining patentable subject matter". The court noted that those systems do not provide a definition of "invention" but, instead, provide various exclusions. The court found that the U.S. and Australian systems were much closer to that of Canada and referred not only to the recent *Bilski* decision of the U.S. Supreme Court, but to various Australian decisions as well.

Given the court's decision, it appears that patents are available for "business method" innovations and that claims to both methods and apparatus should be acceptable to the Patent Office. Barring an appeal of this decision, we may expect an increase in the number of patents being granted in business method-related fields, such as e-commerce, electronic trading, etc., as the backlog of pending applications is reduced. This is, of course, good news for patent applicants but is also cause for concern for companies engaged in these businesses.

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