

Blakes Bulletin

Intellectual Property

Federal Court of Appeal Provides Direction for Patentability of Business Methods in Canada

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The Federal Court of Appeal (FCA) in *Amazon.com, Inc. v. The Commissioner of Patents* has given clear directions on how to assess the patentability of innovations, including e-commerce innovations. While the FCA declined to determine the patentability of the “one-click” technique used by Amazon.com, Inc. (Amazon), it held that “there is no basis to determine conclusively that a business method should not be patentable subject matter.”

The FCA clarified that it is the language of the claim that is important, rather than any underlying concept behind the invention. If the claim, which must be construed purposively rather than literally or by isolating claim elements, defines new, useful and non-obvious subject matter that falls within any of the categories provided in the statutory definition of “invention” – namely art, process, machine, manufacture or composition of matter – then the claim defines patentable subject matter. The exceptions to this are where the claim is directed to an abstract idea or scientific theorem, which are specifically excluded from protection by the *Patent Act* (the Act).

The FCA declined to require claimed subject matter to be “technological” in nature, stating that this term lacks clarity, but noted there is an implication in the Act that patentable subject matter exhibit “physicality”. The FCA stated that the understanding of physicality may change because of advances in knowledge, and that the Commissioner must take this into account when applying tests such as “physicality”.

The FCA ordered the Canadian Intellectual Property Office (CIPO) to examine once more Amazon’s application in accordance with the directions provided in the decision.

BACKGROUND

In 1998, Amazon filed a patent application for its “one-click” e-commerce technique. The application gained a certain notoriety in the popular press by characterizing the invention as covering the online sale of goods using only one click. In fact, the claims considered by the FCA were directed to a client-server system organized in a way and exchanging data that enabled a previously registered online customer to make subsequent purchases with a single action by using a cookie stored on the customer’s computer.

As reported in our October 2010 *Blakes Bulletin: Back in Business – Canadian Federal Court Rejects Patent Office Prohibition of Business Method Patents*, the Commissioner of Patents rejected all of the claims. On appeal, the Federal Court held that the Commissioner’s reasoning comprised a “fundamental error in law” and ordered expedited examination with the direction that the claims constitute patentable subject matter and are to be assessed in a manner consistent with the decision.

FEDERAL COURT OF APPEAL

Before examining the application again, the Commissioner appealed to the FCA. On behalf of the Commissioner, the Attorney General of Canada argued that whether a claimed invention falls within the statutory definition of “invention” requires the Commissioner to identify, independently of the construction of the patent claims, the “actual invention”, and only then to determine whether this actual invention falls within one of the categories enumerated in the statutory definition. Amazon, on the other hand, argued that the claims must be construed purposively, since this is the construction the courts must apply to determine claim validity and infringement, and using a different approach would require a court to approach construction in multiple steps, and to reach different conclusions, depending on the issue to be decided.

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The FCA rejected the Commissioner's position, and affirmed the Federal Court's decision that whether the claimed invention falls within the statutory definition of "invention" must be determined following a purposive construction of the claims. The FCA said that there is no basis to determine conclusively that a business method should not be patentable subject matter and that such methods must be evaluated for patentability in the same manner – by applying purposive construction – as any other invention.

During the examination, the Commissioner had devised a three-part test to determine patentability, but the FCA stated that the focus should instead be on the principles to be derived from the jurisprudence with a recognition that particular tests may not be transportable from case to case in view of varying states of knowledge.

The FCA agreed with the Federal Court's requirement that patentable subject matter must be something with physicality, i.e., physical existence, or something that manifests a discernible effect or change, and accepted that the understanding of the physicality requirements may change because of advances in knowledge. However, the FCA noted that it is axiomatic that a business method always has or is intended to have a practical application and, therefore, cautioned that the requirement of "physicality" is not necessarily satisfied merely because a claimed invention has a "practical application".

Of great interest, and a departure from European practice, the FCA also rejected the Commissioner's requirement that a claimed invention be "technological" in nature, noting that the meaning of the term "technological" was unclear, and affirmed the Federal Court's decision that there is no per se prohibition against the grant of a patent for a business method in Canada.

However, the FCA declined to adopt the Federal Court's construction of the claims on the basis that neither court had the evidence required to properly construe the claims, and instead ordered expedited examination in a manner consistent with the FCA decision.

The decision is subject to appeal, with leave, to the Supreme Court of Canada.

IMPACT OF DECISION

The FCA has reaffirmed that business methods may constitute patentable subject matter and that such methods must be evaluated for patentability in the same manner as any other invention. Purposive construction has traditionally been used by the courts in construing the claims of an issued patent prior to any validity and infringement analysis. However, until now it has not been a formal part of the analysis of pending claims by patent examiners. It remains to be seen how the Commissioner will apply the decision and implement the purposive construction requirement in determining subject matter eligibility. This approach is contrary to that of CIPO's current examination guidelines.

Applicants will need to ensure that patent descriptions and at least some of the claims recite a physically discernible effect, directed towards meeting the "physicality" requirement. Similarly, applicants should ideally ensure that at least some of their claims are not, on a purposive construction, restricted to a single inventive aspect that is merely a scientific principle or an algorithm. Instead, applicants should recite the claims from the perspective of how physical components operate to facilitate or improve the manner in which a method is carried out, i.e., the underlying technology used to practise the invention.

Claims in pending applications that had previously been subject to rejection on the ground that the "actual invention" was deemed to be either a business method or not "technological" should now be reconsidered following a purposive construction of the claim. It seems unlikely that examiners will be enthusiastic to take this step voluntarily, so patent applicants should review their pending patent claims and specifically request reconsideration of previously rejected claims where warranted.

By rejecting the Commissioner's "technological" requirement, the 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 to those in the European Union.

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However, the purposive construction approach differs in important respects from the "machine or transformation" test advocated by the U.S. Court of Appeals for the Federal Circuit. While the U.S. Supreme Court has rejected the "machine or transformation" test as the only test of statutory patentable subject matter, it offered no clear guidance as to what alternatives may exist and should be applied. In contrast, purposive construction means that there is no requirement for a patent claim to be limited to a specific machine, or to produce some material or physical transformation.

A purposive construction requires that the claims be construed as a whole in view of the knowledge of a person skilled in the particular art with a mind willing to understand the patent, to determine what the inventor intended to claim.

A purposive construction will reveal the claim elements that are essential to the inventor's claimed invention. The FCA confirmed that a purposive construction may determine that a novel and unobvious business method is an essential element of a patentable claim.

The FCA warned that, in a purposive construction, the Commissioner must be alive to the possibility that a claim may attempt, intentionally or otherwise, to disguise non-statutory subject matter, such as a mathematical formula or algorithm, by reciting a non-essential machine that performs the method. An example of such a claim is one where a computer merely automates the performance of a mathematical calculation.

A purposive construction of Amazon's one-click claims by CIPO may lead to a different assessment of what the inventor has invented and may in fact question whether the invention *as claimed* is even directed to a business method. For example, one could ask: Is the business method the invention or does the invention facilitate the business method? Examined as a whole, it would seem that, if one considers the business method to be the actual online purchase, it is not the business method

itself which has changed (in the end a purchase is made online) but rather the way in which the business method is conducted (by implementing a client-server system organized in a particular way and exchanging particular data).

Illustratively, Amazon argued that its one-click technique benefits the customer in a number of ways, including that "the customer is spared the time of re-entering the personal information and increased risk involved in resending personal information to the merchant's computer." One could ask how this differs from the way in which cash registers, and more recently point-of-sale terminals, improved substantially the same business method, i.e., a customer purchase. Would a purposive construction of a claim directed to a cash register not find there to be patent-eligible subject matter in that cash register?

The FCA decision appears to reflect an interpretation consistent with Canadian patent practice prior to the Commissioner's initial rejection of Amazon's application. To be eligible for a patent, a claim, taken as a whole, must define a combination of elements which falls within the statutory definition of "invention". Claims conforming with the U.S. "machine or transformation" test may or may not satisfy this requirement, so it will be important to consider each claim on a case-by case basis.

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