

Current Intelligence

■ Business methods patentable in Canada according to Federal Court

Amazon.com Inc. v Commissioner of Patents, 2010 FC 1011, Federal Court, 14 October 2010

The earlier recommendation of the Patent Appeal Board (accepted by the Commissioner of Patents) to reject Amazon.com's patent application for placing orders online using one click (commonly referred to as Amazon.com's one-click 'patent') as being directed towards non-statutory subject matter (*Re Kaphan Patent Application No. 2,246,933*, 2009 LNCPAT 2; 'Canadian Patent Appeal Board denies Amazon.com's one-click patent application', *Journal of Intellectual Property Law & Practice*, Vol. 5, No. 1, 2010) was recently overturned by the Canadian Federal Court.

Legal context

Section 2 of the Canadian Patent Act defines an 'invention' as:

any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement in any art, process, machine, manufacture or composition of matter.

Any invention under the Patent Act must therefore fit within one of these five categories, or be an improvement within one of them.

In a strongly worded decision Justice Phelan of the Federal Court ruled that the Commissioner of Patents had erroneously accepted the recommendations of the Patent Appeal Board which were either flawed in law, policy driven or motivationally suspect:

'The absolute lack of authority in Canada for a "business method exclusion" and the questionable interpretation of legal authorities in support of the Commissioner's approach to assessing subject matters underline the policy driven nature of her decision. It appears as if this was a "test case" by which to assess this policy, rather than an application of the law to the patent at issue.' (*Amazon.com Inc. v Commissioner of Patents*, 2010 FC 1011 at para. 78).

The Commissioner's decision was quashed and sent back for expedited re-examination on the basis that the claims constitute patentable subject matter.

Facts

Over a decade ago, Amazon.com filed an application to patent a 'Method and System for Placing a Purchase Order via a Communications Network'. The applicant sought a patent for a system of placing orders online using a single click. Customers were identified by the use of cookies that were stored locally on their computers; these identifiers were then used to obtain the customer's pre-recorded information from Amazon.com's database.

The application claimed priority through two US applications filed on 12 September 1997 and 23 March 1998. The Patent Examiner rejected Amazon.com's application in June 2004, stating that all claims (1 through 75) were either obvious or directed towards non-statutory subject matter. The Patent Appeal Board recommended that the Examiner's findings on obviousness be overturned, but that the application still be denied on the grounds of subject matter eligibility (*Amazon.com Inc. v Commissioner of Patents*, 2010 FC 1011). As is common practice, the Commissioner of Patents accepted those findings wholesale, and imported them into her decision verbatim.

Analysis

The Federal Court grounded its decision on the *ultra vires* approach taken by the Commissioner in denying the application on policy grounds. Justice Phelan, writing for the Court, adopted the language of the majority of the Supreme Court of Canada in *Harvard College v Canada (Commissioner of Patents)* [2002] 4 SCR 45 where Justice Bastarache expressly 'disagree[d] that s. 40 of the Patent Act [the general provision in the Act allowing the Commissioner of Patents to deny a patent application if the applicant is not entitled by law to receive one] gives the Commissioner discretion to refuse a patent on the basis of public policy considerations independent of any express provision in the Act' (*Harvard College v Canada (Commissioner of Patents)* [2002] 4 SCR 45 at para. 144, emphasis added).

The Court accepted the appellant's argument that the Commissioner had taken too narrow an approach to 'art' (one of the five categories of statutory subject matter). The Court rightly noted that the Supreme Court of Canada decision in *Shell Oil Co. v Commissioner of Patents* [1982] 2 SCR 536 was the 'starting point' for any discussion of a patentable 'art'. There, according to Justice

Phelan, the Supreme Court emphasized the importance that any patentable art be directed to the practical application of a discovery or idea:

What then is the “invention” under s. 2? I believe it is the application of this new knowledge to effect a desired result which has an undisputed commercial value and that it falls within the words “any new and useful art”. I think the word “art” in the context of the definition must be given its general connotation of “learning” or “knowledge” as commonly used in expressions such as “the state of the art” or “the prior art” (*Shell Oil Co. v Commissioner of Patents* [1982] 2 SCR 536 at p. 549).

This practical application requirement ensures that patent monopolies are awarded to concrete and tangible results (as opposed to mere ideas or unapplied discoveries). It also ensures that patent applications are not assessed against the bricks-and-mortar notion that, to be patentable, inventions must produce ‘some change of either character or condition’ in physical objects as set out by the Commissioner at para. 139 of her decision (*Re Kaphan Patent Application No. 2,246,933*, 2009 LNC PAT 2). Justice Phelan put it well when he stated that the ‘Patent Act is not static; it must be applied in ways that recognize changes in technology such as the move from the industrial age to the electronic one of today’ (*Amazon.com Inc. v Commissioner of Patents*, 2010 FC 1011 at para. 54).

Justice Phelan then systematically derided the Commissioner for adopting Justice Arbour’s dissent in the Supreme Court of Canada decision in *Monsanto Canada Inc. v Schmeiser*, 2004 SCC 34 as the judicial basis for excluding business methods under Canadian law. In that dissent, Justice Arbour cited the American decision in *Street Bank & Trust Co. v Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) – which actually upheld the patentability of algorithms insofar as they were directed towards some useful, tangible result – as the sole authority in Canada for denying the patentability of business methods. The Commissioner acknowledged this error in Justice Arbour’s dissent, but proceeded to accept its soundness ‘notwithstanding the reference to *State Street Bank*’ (*Re Kaphan Patent Application No. 2,246,933*, 2009 LNC PAT 2 at para. 142; see also Crowne-Mohammed, E., ‘The Patentability of Professional Skills and Business Methods in Canada’, *Journal of Intellectual Property Law & Practice*, Vol. 5, No. 2, 2010 at p. 122 for fuller discussion).

Justice Phelan then noted with some curiosity that:

On the contrary, it seems that until quite lately the Patent Office’s policy was to grant patents for business methods so long as they were an art within the meaning of section 2 of the Patent Act. The previous Manual of Patent Office Practice (MOPOP), 12.04.04 (rev. Feb. 2005) stated that

business methods are “not automatically excluded from patentability, since there is no authority in the Patent Act or Rules or in the jurisprudence to sanction or preclude patentability based on their inclusion in this category”. The manual required that they be assessed like any other invention. The evidence indicates this practice was followed. The only explanation for the Patent Office’s change of heart in the newly revised manual appears to be the Commissioner’s own decision in the case at bar (*Amazon.com Inc. v Commissioner of Patents*, 2010 FC 1011 at para. 62).

Justice Phelan emphasized that since there is not, nor has there ever been, a statutory exclusion of ‘business methods’ in Canada, that reference to UK jurisprudence was ‘misguided . . . [and] comparison of the two regimes is an inappropriate attempt to read in words that do not exist. The very passages cited by the Commissioner represent a discussion of the policy behind the business method exclusion. As discussed above, this policy should have had absolutely no bearing on her decision’ (*Amazon.com Inc. v Commissioner of Patents*, 2010 FC 1011 at para. 63).

Practical significance

Business methods are patentable subject matter in Canada, for the time being.

Despite Justice Phelan’s observation that the Patent Office’s own Manual once stated that business methods were not automatically excluded because ‘there is no authority in the Patent Act or Rules or in the jurisprudence to sanction or preclude patentability based on their inclusion in this category’, and the rare judicial disdain for the unfortunate guinea pigs (or ‘test cases’) that are the subject of a new change in administrative policy, it is likely that the decision will be appealed.

The language of the Patent Act is clear: ‘any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement in any art, process, machine, manufacture or composition of matter’ is the proper subject matter of a patent. Given the expansive approach to ‘art’ that the Supreme Court of Canada endorsed in *Shell Oil*, appellate courts should be slow to overturn the decision of the Federal Court. Exclusions to patentability, if not codified by statute, should not be crafted by the courts. The subject matter eligibility threshold is a low one. Patentable subject matter cannot remain stagnant. It is the one aspect of patentability that must incrementally enlarge as society progresses. There is no risk of patentable subject matter ‘abuse’—whereby inventors seek to protect any and everything ‘under the sun’—since the other hallmarks of patentability (novelty, inventiveness and utility) serve as ‘fact specific’ safeguards to ensure that only deserving subject matter is protected with the patent monopoly.

We propose that the exclusion of the ‘unholy triumvirate’ (natural/physical phenomena, laws of nature (including scientific principles and abstract theorems) and abstract ideas (including mental steps)) is the only rational baseline from which courts should exclude patentable subject matter. The triumvirate, without something ‘more’, merely provides information (or ways of thinking) about the world. The triumvirate is a collection of unapplied subject matter. Against this baseline, ‘difficult’ areas like biotechnology and nanotechnology can be better rationalized. If the ‘invention’ is for the pure discovery, or a law of nature, then it cannot be protectable subject matter, since it is unapplied ‘information’. If however these ‘inventions’ go beyond mere discovery, and result in isolated substances that would not otherwise naturally occur—which possess some quality, property, form or characteristic that distinguishes it, in a non-trivial way, from its natural state—this is precisely the type of advance that the patent system was designed to

protect. So too, software, business methods and professional skill which do not amount to a monopolization of mathematical truths, mental steps or abstract ideas are all the proper subject matter of a patent, if they are applied to some useful, non-obvious and inventive end. Indeed, beyond the ‘unholy triumvirate’, other judicially crafted exceptions to patentable subject matter—which are not grounded in statute—are difficult to justify in systems of law that pride themselves on legislative intent and supremacy.

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doi:10.1093/jiplp/jpq187