Business Method Patents in Australia

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In *Welcome Real-Time v Catuity Inc* [1], 17 May 2001 ("Welcome"), the Federal Court of Australia indicated that business methods may be the proper subject of a patent, provided the ordinary legal requirements for patentability are satisfied. The Court found persuasive the US decision in *State Street Bank v Signature Financial Group* 149 F 3d 1368 (1998) ("*State Street*"), which held that there were no exceptions to preclude the granting of patents for business methods. In finding the *State Street* decision to be persuasive Heerey J emphasised that the social needs the law has to serve in the US are the same as in Australia.

The case concerned Welcome's patent relating to a system for processing information on a smart card to establish and maintain customer loyalty programs. Catuity Inc argued that Welcome's smart card invention did not relate to patentable subject matter according to the concept of "manner of manufacture" as developed under Australian law. In assessing this argument the Court reviewed relevant Australian and UK decisions. The High Court decision in *National Research Development Corporation v Commissioner of Patents* (1959) 102 CLR 252 ("NRDC") was considered by the court to be leading authority and was described as being a watershed decision that changed the direction of case law in Australia. The decision has been held to require "a mode or manner of achieving an end result which is an artificially created state of affairs of utility in the field of economic endeavour", and cautions against any attempt to circumscribe what constitutes a manner of manufacture. The principles established by *NRDC* were applied in the Federal Court's decisions upholding the patents in *International Business Machines Corporation v Commissioner of Patents* (1991) 33 FCR 218 ("IBM") for a curve display method and *CCOM Pty Ltd v Jiejing Pty Ltd* (1994) 51 FCR 260 ("CCOM") for a word processing system. The Court considered that it was unable to distinguish the present case from the *IBM* and *CCOM* decisions.

The invention in *Welcome* was summarised as being the ability to dynamically store on a card each merchant's loyalty program in a separate record of a file referred to as a "behaviour file". The Court, in finding the Welcome patent valid, considered the claimed method produced an artificial state of affairs in that cards could be issued making available to consumers many different loyalty programs of different traders as well as different programs offered by the same trader. This was considered not to be just an abstract idea or method of calculation. The result was also considered to be beneficial in a field of economic endeavour, namely retail trading, because it enabled many traders (including small traders) to use loyalty programs and thereby compete more effectively for business.

The Court felt that the patent did not relate to a business method, in the sense of a particular method or scheme for carrying on a business. A number of examples were given as to what the Court felt was a business method in this sense and included a manufacturer appointing wholesalers to deal with particular categories of retailers rather than all retailers in particular geographical areas. Another example was Henry Ford's idea of stipulating that suppliers deliver goods in packing cases with timbers of particular dimensions which could then be used for the floor boards in the Model T.

In finding the *State Street* decision persuasive, the Court felt that not only were the social needs in the US and Australia the same, but that both countries also had similar commercial and technological environments and that the law had to strike a balance between on the one hand the encouragement of true innovation by the grant of monopoly and, on the other, freedom of competition.

The Court also briefly considered arguments that the invention could be considered to be "generally inconvenient" under the concept of "manner of manufacture". The arguments were rejected because it was considered that if an invention satisfies the patentability requirements it could hardly be a complaint that others in the relevant field will be restricted in their trade because they cannot lawfully infringe the patent. It was considered that the whole purpose of patent law is the granting of a monopoly.

The decision is important in that it confirms, once again, the approval of software patents given in the *IBM* and *CCOM* decisions, and also effectively sanctions the Australian Patent Office's practice of granting patents to business method processes, provided the patent is restricted to a method, means or system to put the business method into effect which gives rise to an "artificially created state of affairs".

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[1] (2001) AIPC 91-719; [2001] FCA 445;