

## SOFTWARE: THE BATTLE FOR PATENT PROTECTION IN CANADA

The scope of patentable subject matter in Canada is broad. Section 2 of the *Patent Act* defines an “invention” as any “new and useful art, process, machine, manufacture or composition of matter” or an improvement therein.

However, there are limits. For instance, the subject matter of a patent must be more than simply a “disembodied idea”. Like the idea/expression dichotomy in copyright law, the line between an idea and an invention can be difficult to discern and therefore attracts controversy. So-called “method patents”, including software inventions, often come close to this line.

In a decision released in June 2010, the US Supreme Court refused to broadly exclude business methods from patent protection in that jurisdiction although invited to do so.<sup>i</sup> In Canada, a similar battle is currently being fought over the patentability of a software patent application filed by Amazon.com. Although not the final word, a recent decision of the Federal Court gives software developers renewed hope that, after years of frustration, software inventions can qualify for patent protection in Canada<sup>ii</sup>.

### The Patent Commissioner

In 1998, Amazon.com filed a patent application entitled METHOD AND SYSTEM FOR PLACING A PURCHASE ORDER VIA A COMMUNICATIONS NETWORK. Now known as the “One Click Patent”, the application claimed a method and system whereby a customer could visit a web site, enter their contact and payment information on a single occasion and be given an identifier that would be stored as a browser cookie on the customer’s computer. With the identifying

browser cookie, the web site could then recognize the customer on subsequent visits, automatically retrieve their contact and payment information from its records and enable the customer to place purchases with “one click” on the desired item.

The Canadian patent examiner rejected the application on two grounds, namely that the invention was obvious and claimed non-patentable subject matter. On appeal, the Patent Commissioner found that the invention was not obvious, but ultimately agreed with the patent examiner on the second ground and rejected the patent application as failing to claim patentable subject matter.

In its decision, the Commissioner identified a four-step approach to identifying patentable subject matter:

1. the patent claims must define patentable subject matter in both “form and substance”;
2. the patent claims must fit into one of the categories listed under the definition of “invention” in the *Patent Act*,<sup>iii</sup>
3. the claims cannot be directed to subject matter that has explicitly been excluded by the *Patent Act* or by the jurisprudence;<sup>iv</sup> and
4. the invention must be “technological” in nature.

Starting with the assumption that business methods are not the proper subject matter for a patent in Canada, the Commissioner opined that:

...mere concepts or rules for the more efficient conduct of online ordering, are methods of doing business. Even if these concepts or rules

are novel, ingenious and useful, they are still unpatentable because they are business methods.

In order for an "art" or "process" to be patentable, it must "cause a change in the character or condition of some physical object". This is sometimes referred to as the "transformation" requirement. According to the Commissioner, the One-Click Patent fails the transformation requirement because it merely confers a change to the ordering process rather than a change to the products offered for sale.

Although admitting that it is difficult to arrive at a single accepted definition of "technology", the Commissioner further opined that patentable subject matter must be, in substance, a "technological solution to a problem".

### **The Federal Court**

In its decision released October 14, 2010, the Federal Court overturned the Commissioner's decision, rejected the approach recommended by the Commissioner and generally observed that "many of the Commissioner's errors stem from her adoption of a policy role and the importation of policies not concordant with Canadian law."

First, the Court emphasized that the patent claims must be viewed as a whole. In particular, the "form and substance" approach was found to represent a "departure from the clear direction of the Supreme Court to apply purposive construction universally".<sup>v</sup>

Second, the Court rejected the Commissioner's position with respect to business method patents, stating explicitly that "there is not, nor has there ever been, a statutory exclusion for business methods in Canada."

Third, the Court found that the Commissioner's test for what constituted a patentable invention was overly restrictive and inconsistent with the Supreme Court jurisprudence.<sup>vi</sup>

In the Court's view, the Commissioner's interpretation "does not take into account a wider definition of physical change in character or condition or the concrete embodiment of an idea." The transformation requirement "must not restrict the patentability of practical applications which might, in light of today's technology, consist of a slightly less conventional 'change in character' or effect [than] through a machine such as a computer."

Finally, the Court rejected outright the requirement that an invention be "technological" in nature, stating that "it is difficult to see how introducing this sort of technological test into the Canadian patent system would do anything but render it overly restrictive and confusing."

Instead, the Court affirmed the following test to determine whether a patent application claimed patentable subject matter:

1. it must not be a disembodied idea but have a method of practical application;
2. it must be a new and inventive method of applying skill and knowledge; and
3. it must have a commercially useful result.<sup>vii</sup>

With respect to the One-Click Patent, the Court concluded that the patent claims are "not simply a scheme, plan or disembodied idea":

...it is a practical application of the 1-click concept, put into action through the use of cookies, computers, the internet and the customer's own action. Tangibility is not an issue. The 'physical effect', transformation or change of character resides in the customer manipulating their computer and creating an order. It matters not that the 'goods' ordered are not physically changed.

### **Looking Forward**

The Federal Court decision respecting the One-Click Patent indicates that the scope of

patentable subject matter in Canada may be quite broadly interpreted in connection with business methods that are implemented through computers and software.

As of the writing of this article, anecdotal evidence suggests that some Canadian patent examiners continue to apply the narrow approach recommended by the Commissioner. It is expected that uncertainty in the practice of patent prosecution will continue in this regard until the appeal is concluded.

Nevertheless, inventors are urged to file patent applications for business methods and software enabled inventions in a timely manner.<sup>viii</sup> For these inventions, the long-term prospects for patent protection in Canada have never been better.

**Valerie Edward** is a lawyer and patent & trademark agent.

She can be reached at:  
Ballagh & Edward LLP  
905.572.9300  
www.ballagheadward.ca  
175 Longwood Road South, Suite 102, Hamilton,  
Ontario L8P 0A1

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<sup>i</sup> *Bilski v Kappo*, 561 U. S. \_\_\_ (2010)

<sup>ii</sup> *Amazon.com v. The Commissioner of Patents*, [2010] FC 1011. The Attorney General of Canada and the Commissioner of Patents have filed a Notice of Appeal to the Federal Court of Appeal.

<sup>iii</sup> Section 2 of the *Patent Act* defines an “invention” as any “new and useful art, process, machine, manufacture or composition of matter” or an improvement therein

<sup>iv</sup> Section 27(8) of the *Patent Act* provides that no patent shall be granted for a “mere scientific principle or abstract theorem”. In addition, Canadian jurisprudence has found that “methods of medical treatment” are not eligible for patent protection.

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<sup>v</sup> See *Free World Trust v. Electro Santé Inc.*, [2000] 2 S.C.R. 1024 and in *Whirlpool Corp. v. Camco Inc.*, [2000] 2 S.C.R. 1067.

<sup>vi</sup> See *Shell Oil Co. of Canada v. Commissioner of Patents*, [1982] 2 S.C.R. 536

<sup>vii</sup> From *Progressive Games, Inc. v. Canada (Commissioner of Patents)*, 177 F.T.R. 241 (T.D.) at para. 16, aff'd (2000), 9 C.P.R. (4th) 479 (F.C.A.)

<sup>viii</sup> In Canada, there is a one year grace period within which to file a patent application after public disclosure by the applicant or someone who obtained knowledge from the applicant.