Patents are valuable property. In Canada, as in many other countries, a patent gives its owner the exclusive right to make, construct, use, or sell the patented invention for twenty years. In most cases, that's plenty of time for the patent owner to establish a successfully competitive business presence or, in more cut-throat industries, to fund a war chest with which to protect itself against, or acquire, competing businesses.

That is why the recent decision of the Federal Court of Canada in *Amazon.com, Inc. v Canada* 2010 FC 10111 is so important. In general terms, the decision clarified that business methods were patentable (in appropriate circumstances), when that was previously in doubt. The ability to patent business methods would be invaluable to a business in any industry to keep its competitors at bay. However, such patents would be especially disruptive in the computer industry where twenty years of exclusivity is far longer than the lifetime of the average piece of software. In fact, in the fast-paced world of the internet, where businesses with no tangible assets are already some of the most valuable in the world, twenty years is an eternity. Imagine the value to Google of twenty years of protection over its proprietary search algorithms. Or to a social networking site of protecting how it determines the popularity of topics so that it can accurately value advertising space.

The patent office rejected the patent

The patent wound its way through the Canadian Patent Office for six years before being rejected by the patent examiner for two reasons. First, because the invention was not statutory subject matter under the Canadian Patent Act. Second, because it was obvious to use cookies for on-line tracking purposes.

This rejection was appealed to the Patent Appeal Board, which upheld the examiner's finding that the invention was not patentable subject-matter. (The Board did hold that the “single click” aspect of the patented invention was not obvious, and overruled the Examiner on that point.)

The Federal Court overturned the rejection

Amazon.com, Inc. appealed the Board's decision to the Federal Court of Canada, challenging not only the Board's decision, but also nearly every aspect of its legal analysis. On 14 October 2010, the anxiously awaited appeal decision was released. The Federal Court overturned the Board's decision, held that the “One Click” invention was patentable subject matter, and ordered the Canadian Patent Office to examine the patent in accordance with that holding.

At its simplest, the Federal Court held that there was no per se bar on business method patents, as the Board had previously held. The Canadian Patent Act defines an “invention” as “... any new and useful art, process, machine, manufacture or composition of matter ....”. In holding that business methods were not a patentable “art” because they did not produce physical change, the Board had erred by applying too narrow a definition of that term. Physical change was not required, but only that the “art”:

**Figure 1**

Jonathan Mesiano-Crookston of Goldman Hine LLP studies the *Amazon* decision and its implications on patenting business methods
(i) not be a disembodied idea;
(ii) be new and inventive method of applying skill; and,
(iii) have a commercially useful result.

By making this (and other) errors, the Board had “...extended into policy-making which stands to fundamentally affect the Canadian patent regime.” The court also criticised the Board for its reliance on foreign patent jurisprudence, which does not necessarily correlate with Canadian patent law due to differences between foreign laws and the Canadian Patent Act.

Practical implications of the Amazon decision

The immediate and most obvious implication of the Amazon decision is that business methods may no longer be automatically ineligible for patent protection in Canada. Businesses who think they have such inventions may wish to conduct audits of their organisations’ intellectual capital (or knowhow) in order to determine whether they have any proprietary and non-public business methods that might be of greater value to their organisations if turned into patents.

Intellectual property audits of this type generally take into consideration all aspects of the organisation’s business. While a full discussion of these audits is beyond the scope of this article, they often start by determining the organisation’s focus and goals, so as to identify what knowhow is most likely to form the basis for strong IP protection and where in the organisation to look for it. In order to determine where and by whom the organisation’s knowhow might be developed and recorded, key employees should be consulted. In the light of the Amazon decision, processes (business methods) should definitely be considered a key part of IP audits, if they are not already.

Depending on the audit results, if opportunities for patenting business methods (or other potentially patentable inventions) are identified, the organisation may choose to move forward to obtain patentability opinions in order to determine whether the potential inventions identified meet the criteria for patenting (ie is novel, non-obvious, useful, and patentable subject matter). Alternatively, the organisation might elect not to obtain an opinion, and to simply move forward with filing a patent for the purported invention. Even if patents do not ultimately issue from these filings, they may still serve as a deterrent to others. The commercial potential and the cost of developing each piece of knowhow into a patent ought to also be assessed as part of the audit, and certainly before any filing is undertaken.

If the organisation cannot move forward with either an opinion or a patent filing, the knowhow of interest ought to be documented as fully as possible at the time of the audit; so that if it later becomes desirable to refer to the matter to patent agents for further action, that can easily be done.

If thinking about proceeding by way of patent, it should be kept in mind that the method will have to be publicly disclosed. However, if the organization can use the method without disclosing it to the public or clients, the value of the method as embodied in a patent should be weighed against the possibility of keeping it a trade secret. In Canada, the requirements for a claim of misuse of confidential information (trade secrets) are:

(1) that confidential information was supplied to a recipient;
(2) that the information was communicated in a way that created an obligation of confidence; and,
(3) that the recipient of the information misused or made unauthorised use of the information given.

Broadly speaking, if the knowhow can be kept secret, especially in a way that if it becomes publically known the above elements can be proven in court, then it may be possible to protect the information by maintaining its confidentiality and asserting it as a trade secret. The obvious drawback to this strategy is that suing on the information’s misuse is more difficult on a patent, as a patent provides prima facie rights to sue for infringement. On the other hand, confidential information can potentially be kept confidential indefinitely, whereas patents have limited terms and eventually expire. The Coca-Cola recipe is the most often-cited “real-world example” of the benefits of a trade secret, and it’s been a secret since 1886.

Final thoughts

First, it ought to be noted that the Amazon decision is under appeal. Canadian patents filed now may find themselves facing a revised patent law within the next year or so.

Second, the exact scope of the Amazon decision is difficult to determine. While it held that business methods are patentable, the decision dealt with a business method implemented by a computer system, which raises slightly different policy concerns than “pure” business methods (ie those which do not require other elements). While the court rejected the Board’s idea that a business method must perform a “physical” transformation, the court did reaffirm that a business method must be a “practical” application and not merely a disembodied idea. The dividing line between practical and mere idea in a pure business method can be difficult to determine. Further, traditional policy rationales for rejecting pure business method patents, including the concern that they lead to excessive monopolisation of business processes that can stifle competition, are more compelling when there are the fewer tangible elements to the method.

In the end, while most businesses will likely want to wait and see what the Federal Court of Appeal has to say about the Amazon decision, others may wish to be more proactive and assess now whether their intellectual capital can be turned into business method patents. After all, twenty years of protection, if it can be obtained, might just be worth the cost.

Footnotes

3. Other claims covered a computer system implementing the method.
6. PAB decision, paras. 66-102 cover the obviousness analysis, but see para. 99 and 101 for the Board’s conclusion.
7. FC decision, para. 2.

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