

Federal Court



Cour fédérale

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Docket: T-1476-09

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Ottawa, Ontario, October 14, 2010

PRESENT: The Honourable Mr. Justice Phelan

BETWEEN:

AMAZON.COM, INC.

Appellant

and

**THE ATTORNEY GENERAL OF CANADA, and
THE COMMISSIONER OF PATENTS**

Respondents

REASONS FOR JUDGMENT AND JUDGMENT

I. INTRODUCTION

[1] This is an appeal of a decision by the Commissioner of Patents to deny the Appellant's patent for a "business method", having found that it was not patentable subject matter under s. 2 of the *Patent Act*, R.S.C. 1985, c. P-4 (*Patent Act*).

[2] In coming to the conclusion she did, the Commissioner in effect created a test for assessing patentable subject matter, outlined new exclusions and requirements for patentability and outlined

her view of the scope of patentable ‘art’. Her decision not only raises significant questions of law and interpretation, but extends into policy-making which stands to fundamentally affect the Canadian patent regime. This appeal is thus of consequence not only to the Appellant, but to many who navigate our patent system. It also revisits the powers given – and not given – to the Commissioner under the *Patent Act* and the limitations which the statutory regime and jurisprudence impose upon her.

[3] At its core, the question is whether a “business method” is patentable under Canadian law. For the reasons which follow, the Court concludes that a “business method” can be patented in appropriate circumstances.

II. BACKGROUND

[4] Amazon.com seeks a patent for an invention entitled “Method And System For Placing A Purchase Order Via A Communication Network” (claimed invention). The application was filed on September 11, 1998 and claimed priority from two American patents.

[5] The claimed invention further enables internet shopping. The customer visits a website, enters address and payment information and is given an identifier stored in a “cookie” in their computer. A “server” (a computer system operating a commercial website) is able to recognize the “client” (customer computer with the identifying cookie) and recall the purchasing information which is now stored in the vendor’s computer system. The customer can thus purchase an item with a “single click” – the order is made without the need to ‘check out’ or enter any more information.

[6] There are 75 claims in the patent; some relate to the “method” whereas the others relate to the “system” (i.e. the machine enabling this process). For the purposes of this appeal the parties have agreed that two independent claims, Claim 1 and Claim 44, are at issue:

Claim 1

1. A method in a client system for ordering an item, the method comprising: receiving from a server system a client identifier of the client system; persistently storing the client identifier at the client system; where an item is to be ordered,

displaying information identifying the item and displaying an indication of a single action that is to be performed to order the identified item; and

in response to the single action being performed, sending to the server system a request to order the identified item along with the client identifier, the client identifier identifying account information previously supplied by a user of the client system wherein the user does not need to log in to the server system when ordering the item and

when account information is to be changed,
coordinating the log in of the user to the server system;
receiving updated account information; and
sending the updated account information to the server system

whereby the user does not need to log in to the server system when ordering the item, but needs to log in to the server system when changing previously supplied account information.

Claim 44

44. A client system for ordering an item, comprising:

a component that receives from a server system a client identifier of the client system and that stores the client identifier persistently;

a component that orders an item by displaying information identifying the item along with an indication of a single action that is to be performed to order the identified item and by sending to the server system a request to order the identified item along with the client identifier, the client identifier identifying account information previously supplied by a user wherein the user does not need to log in to the server system when ordering the item; and

a component that updates account information by coordinating the log in of the user to the server system receiving updated account information for the user, and sending the updated account information to the server system.

[7] The remainder of the claims are variations on the above theme and describe, *inter alia*, what information is stored, order cancellations and how multiple ‘single actions’ are consolidated.

[8] The patent application process was lengthy and involved multiple amendments to the claims. On June 1, 2004, the Examiner rejected the patent on the basis of obviousness and non-patentable subject matter. The Appellant appealed the decision and appeared before a Patent Review Panel (Panel). This process was delayed due to the retirement of two members, requiring a second hearing before a new Panel. A decision was finally rendered on March 4, 2009. The Commissioner accepted the finding of the Panel, making their report the reasons for her decision. The Panel’s Reasons are referred to here as the Commissioner’s Reasons.

III. COMMISSIONER’S DECISION

[9] The Commissioner overturned the Examiner’s finding on obviousness. Although the use of a “cookie” to track information is not new, she found the inventive concept – a simplified “one-

step” process in ordering – to be novel and non-obvious. The decision rejected the idea that an invention is obvious on account of a non-technical ‘distinguishing feature’ (here, the one step process). This finding is not at issue in this appeal; it is agreed that the invention is novel.

[10] The claims were rejected, however, on the basis that they did not conform to section 2 of the *Patent Act* and accordingly were non-patentable subject matter.

2. In this Act, except as otherwise provided,

...

“invention”
« *invention* »

“invention” means 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;

2. Sauf disposition contraire, les définitions qui suivent s’appliquent à la présente loi.

...

« invention »
“*invention*”

« invention » Toute réalisation, tout procédé, toute machine, fabrication ou composition de matières, ainsi que tout perfectionnement de l’un d’eux, présentant le caractère de la nouveauté et de l’utilité.

[11] The Commissioner’s logic in coming to this conclusion is fundamental to this appeal. It is based on a “four step” approach which the Appellant submits has no basis in Canadian jurisprudence. Further, they submit that the assumptions and legal ‘principles’ enunciated constitute misinterpretation and misapplication of foreign and domestic law. The Respondent, on the other hand, submits that the Commissioner’s approach is supported by fundamental principles of patent law, dating to the origins of the patent system and drawn from both Canada and abroad.

[12] Even the Commissioner acknowledged the novel path down which the analysis ventured. The Panel Report stated that there was considerable debate as to the proper approach to assessing patentable subject matter and it was incumbent on the Commissioner to set out the correct approach (Panel Report at para. 20).

A. *Form and Substance of the Claims*

[13] According to the Commissioner, an important starting point is analysis of both the form and the substance of the claims. An invention must, on its face, relate to an art, process, machine, manufacture or composition of matter (it must fit the ‘form’ requirement). This is not, however, sufficient; one must then look to what has been “invented” or “discovered” in order to determine the substance of the invention. The Commissioner found support for this approach in *Lawson v. Commissioner of Patents* (1970), 62 C.P.R. 101 (*Lawson*), *Shell Oil Co. of Canada v. Canada (Commissioner of Patents)*, [1982] 2 S.C.R. 536 (*Shell Oil*), *Tennessee Eastman Co. et al v. Commissioner of Patents*, [1974] S.C.R. 111 (*Tennessee Eastman*) and *Schlumberger Canada Ltd. v. Commissioner of Patents*, [1982] 1 F.C. 845 (C.A.) (*Schlumberger*). She also cited a more recent case from the United Kingdom in support of this practice and the “four step approach” (*Aerotel Ltd. v. Telco Holdings Ltd & Others*, [2006] EWCA Civ 1371 (*Aerotel*)).

[14] In what seemed like an aside, the Commissioner made a further comment which would become important in her later analysis, and hotly debated in this appeal. She stated that a claimed invention is not patentable if what makes it new and unobvious comprises non-statutory subject

matter. In view of this, a claim cannot rely on a particular group of features which are not new but which together are new and patentable in order to make it so. This conclusion seems to flow from the decision in *Schlumberger*, where the Federal Court of Appeal found that use of a computer did not make a mathematical formula patentable. Again, she referred to elaboration in more recent case law from the United Kingdom.

[15] As will be addressed in greater detail later in this judgment, the Commissioner's "aside" leads to a further separation of the enquiry. On this approach, an analysis of the patentability of what is new, apart from the invention as a whole, is required.

B. *Definition of the Relevant Categories*

[16] The Commissioner's statement that the claims must fit into one of the five categories listed in the *Patent Act* is not challenged. However, nearly every aspect of her subsequent discussion on this issue is. On determining that the relevant categories are "art" and "process" she launched into a consideration of the meaning of art. Her definition, which the Appellant has submitted is "restrictive", stressed the physical nature of inventions. Inventions are either a physical object (such as a machine) or a change of character or condition of a physical object. The Commissioner relies on *Lawson*, as cited in by Wilson J. in *Shell Oil* at page 555:

An art or operation is an act or series of acts performed by some physical agent upon some physical object and producing in such object some change either of character or condition...It is concrete in that it consists in the application of physical agents to physical objects and then is apparent to the senses in connection with some tangible object or instrument.

[17] The Commissioner also references Wilson J's discussion of art as "learning or knowledge", understood in the context of terms such as "the state of the art" or "the prior art". It must also have a practical application. In the mind of the Commissioner this knowledge must also be scientific or technological. She concluded that where a claimed invention is neither physical in nature nor producing an act or series of acts performed by a physical agent on a physical object to produce some change or effect, it is not patentable.

C. *Excluded Subject Matter*

[18] The third step in the Commissioner's approach was a consideration of what is excluded either explicitly by the *Patent Act* or by jurisprudence. She came to the immediate conclusion that business methods have "traditionally" been excluded in Canada based in part on the dissent in *Monsanto Canada Inc. v. Schmeiser*, 2004 SCC 34 (*Schmeiser*). There, Arbour J. listed 'business methods' as an example of how the *Patent Act* has been interpreted to exclude certain subject matter from patentability. In including it she relies on *State Street Bank & Trust Co. v. Signature Financial Group Inc.*, 149 F.3d 1368 (Fed. Cir. 1998) (*State Street*), an American decision. However, the Commissioner appears to have recognized that *State Street* actually strongly endorsed the patentability of business methods and so states that she accepts Arbour J's statement "notwithstanding the reference to *State Street Bank*" (Commissioner's Decision at paragraph 142).

[19] In addition to the above justification, the Commissioner reasoned that the exclusion carries through from subject matter exclusions in the United Kingdom, citing a case from 1901 and Fox's

1957 *Digest of Canadian Patent Law*. Both these authorities are clear that one cannot have a patent for a “mere scheme or plan”, including for the conduct of a business. She also quoted at length from a more recent case, *CFPH LLC’s Application*, [2005] EWHC 1589 (Pat.) (*CFPH*), where the British Court discussed the policy reasons behind the business methods exclusion.

[20] Finally, the Commissioner referred to the concurring decision of Justice Dyk in *In re Bilski*, 88 USPQ 2d 1385 (2008) (*Bilski/USCA*), a more recent U.S. Court of Appeals’ decision which re-examined the business methods exclusion, in order to illustrate the bearing the English system has on the American system and the rationale of limiting patents to inventions related to “manufacture”. It should be noted that the Supreme Court affirmation of this case, *Bilski v. Kappos*, 130 U.S. 3218 (2010) (*Bilski/USSC*), was released after the Commissioner’s decision and indeed after this appeal was heard.

D. *Technological Requirement*

[21] The final step in the Commissioner’s analysis is dependent on her assumption that in order to be patentable an invention must be technological in nature. This conclusion is justified by reference to the patent scheme, jurisprudence and the dictionary meaning of technology. The Commissioner’s Reasons refer to the “technological” nature of all five categories of invention, the requirement in the Patent Rules that a description refer to a “technical problem” and the language in the Agreement on Trade Related aspects of Intellectual Property Rights (TRIPS). Further, according to Bastarache J. in *Harvard College v. Canada (Commissioner of Patents)*, 2002 SCC 76 (*Harvard Mouse*), the *Patent Act* was designed to protect advances in technology.

[22] Again, the Commissioner referred at length to the English consideration of this issue, returning to the decision in *Aerotel* as it relates to the “technical contribution” approach to assessing patentable subject matter. The Commissioner’s Reasons acknowledge that there has been a divergence between the European Patent Office (EPO) and the English courts; the EPO has determined the technical nature of the invention is best left to the obviousness analysis given the problems with the contribution approach. Notwithstanding this, the Commissioner found this to indicate that the EPO did consider both technical and non-technical features, albeit in relation to the inventive step.

[23] On the basis of this analysis, the Commissioner concluded that subject matter that was “non-technological” in nature is also non-statutory.

E. *Commissioner’s Assessment of the Patent*

[24] The Commissioner’s assessment of the Appellant’s patent faithfully followed her four step approach. In considering the first step she refused to be limited by only the “grammatical sense” of the claims, as this would prefer form over substance. She found that the method claims were in form related to a process and the system claims in form directed to a machine. However, in substance the claims were the same: both described a method. What was “added” or “discovered” was limited to streamlining the ordering method and the benefits that flowed from this. In order to be statutory, the invention had to “fit” into the definition of an art or a process.

[25] Applying *Lawson*, the Commissioner found no change in physical condition of the goods ordered, only in how the order was placed. Consequently, the claimed invention was not statutory subject matter.

[26] Although she had already determined that the claimed invention did not meet the requirements of the *Patent Act*, the Commissioner went on to consider the final two “steps” of her test. She found that the claims were also excluded as a business method. They added nothing to human knowledge other than retailing concepts or rules for ordering – regardless of the concepts’ novelty, to patent them would represent a “radical departure” from the current regime and require parliamentary approval. Somewhat oddly, in light of her discussion of the exclusionary “tradition”, the Commissioner went on to emphasize that although patents may have been issued for business methods in the past, if this is inconsistent with the *Patent Act*, that practice should be corrected.

[27] Finally, the Commissioner considered each of the features identified in the patent in order to assess whether they were technological, had a technological effect or were cumulatively such. She found that most did not, with the exception of the use of cookies, which might potentially be technological. However, their technological use was already known – no “technical effect” had been added to human knowledge.

IV. STANDARD OF REVIEW

[28] The central issues in this appeal go to the scope and definition of “art” and “method”, as well as judicially interpreted excluded subject matter. The interpretation of s. 2 of the *Patent Act* is a question of law which attracts a correctness standard: *Harvard Mouse, above*, at para. 150.

[29] The second issue, the method used by the Commissioner to assess the claims and the invention, is also a question of law. The Patent Office has essentially charted a legal test for determining patentability. The approach also engages questions of claim construction, an analysis which warrants no discretion.

[30] Nevertheless, if the relevant legal tests were applied and the Commissioner was correct in determining business methods and non-technological inventions are not patentable, the application of the tests and the question of whether the invention was a business method would be subject to a reasonableness standard: *Harvard Mouse, above* at para. 151.

[31] Finally, in the event there was a fundamental error of law which prevented the Commissioner from coming to the right decision, it is within this Court’s discretion to decide the issue *de novo* pursuant to s. 41 of the *Patent Act*: *CertainTeed Corp. v. Canada (Attorney General)*, 2006 FC 436 at para. 27; *Canada Packers Inc. v. Canada (Minister of Agriculture)*, [1989] 1 F.C. 47, 26, C.P.R. 3d 407 (C.A.) at 417.

V. ANALYSIS OF THE LAW

A. *Adoption of International Principles*

[32] This case highlights the challenges in looking to international legal principles to interpret the Canadian patent regime. In an area of the law where advancing human ingenuity often creates novel legal questions to which there may be no immediate answer in Canadian jurisprudence, it can be useful to look to other regimes. However, this must be done mindfully. Despite the international conventions and principles of reciprocity, regimes can be fundamentally different. Something which may be patentable in one country, will not be here, or vice-versa. Also, it may be patentable for an entirely different reason. While international jurisprudence can provide guidance, these cases and the particular Canadian context of the question before the Court (i.e. what is patentable subject matter) must correspond to Canadian law. Some jurisdictions will be more applicable than others given the history, language and prior interpretation of their patent legislation.

[33] The Commissioner relied heavily on foreign jurisprudence throughout her decision, particularly on that of the United Kingdom, Europe and the United States. This becomes troubling and even problematic when she ignores fundamental differences between the foreign and the domestic regimes, or ignores Canadian legal principles altogether. Specifically, her reliance on English and European systems does not take into account that both, in implementing the European Patent Convention (EPC), have fundamentally different legislation than Canada for determining patentable subject matter. Under those systems, there is no definition of “invention”, but a series of exclusions. Jurisprudence in those systems thus often interprets claims not to see whether they

disclose an “invention” within the meaning of a statute, but whether they should be classified as excluded subject matter under Article 52. The Convention states:

- (1) European patents shall be granted for any inventions which are susceptible of industrial application, which are new and which involve an inventive step.
- (2) The following in particular shall not be regarded as inventions within the meaning of paragraph 1:
 - (a) discoveries, scientific theories and mathematical methods;
 - (b) aesthetic creations;
 - (c) schemes, rules and methods for performing mental acts, playing games or doing business, and programs for computers;
 - (d) presentations of information.
- (3) The provisions of paragraph 2 shall exclude patentability of the subject-matter or activities referred to in that provision only to the extent to which a European patent application or European patent relates to such subject-matter or activities as such.

Article 52, European Patent Convention

[34] The United Kingdom’s current Patent Act is worded to be in conformity with the EPC. Even before the Convention, the language used to describe an “invention” in their statutory regime differed from the Canadian *Patent Act*. It has long been acknowledged that our pre-confederation *Patent Act* is derived not from the British statute, which post-dates ours, but from that of our American neighbours: “The principles underlying Canadian patent law both before and since Confederation accordingly approximate rather to those of the United States than to those of British patent law”: O.M. Biggar, *Canadian Patent Law and Practice*, Toronto: Burroughs & Company (Eastern) Limited, 1927 at p. 2; see also *Harvard Mouse*, above at para. 3. It is not surprising that

the language used in the American and Canadian Acts to describe patentable subject-matter is almost identical.

[35] Despite the fact that the American and Canadian patents systems understandably have roots in the British common law, the above shows that the regimes have evolved in different ways and thus English law cannot be adopted unthinkingly. Further, courts in this country have warned against the British authorities when evaluating patentable subject matter: *Tennessee Eastman*, above, at 120-121. Equally, decisions from the United Kingdom have noted the inapplicability of the American regime to their legislation. The Court in *Aerotel*, a decision cited more than once by the Commissioner, made it clear that the position in the USA, in both the absence of an equivalent to s. 52 of the EPC and the “wide scope” given to patentable inventions, was very dissimilar to the position in Europe:

The “exceptions” referred to in the US cases, e.g laws of nature, have some equivalents in Art.52(2). But that is really, as we have pointed out, because they are by their very nature incapable of being the subject of a legal monopoly. The fact that there are some parallels between what is declared by the judges to be unpatentable in the US and what is declared by Art. 52(2) to be an excluded category of invention is no guide as to the interpretation of Art. 52.

Aerotel, above at para. 13.

[36] A reading of *Aerotel* and *CFPH* also reveals that the exclusions in the UK and European regime are largely concerned with policy. In *CFPH* the British Court entitles part of the discussion “The Items Were Excluded for Policy Reasons” and speaks at length to the “hard” and “soft” nature of exclusions and the principles behind them: *CFPH*, above at para. 30. While this discussion may

be interesting, adoption of these policy rationales by the Patent Office is inappropriate and wrong in law. Any doubt as to whether the Commissioner may consider policy when granting a patent was firmly settled by Bastarache, J, speaking for the majority in *Harvard Mouse*:

I disagree that s. 40 of the Patent Act gives the Commissioner discretion to refuse a patent on the basis of public policy considerations independent of any express provision in the Act. The non-discretionary nature of the Commissioner's duty was explained in *Monsanto, supra*, a case cited by Rothstein J.A. At pages 1119-20, after citing s. 40 (then s. 42) of the Patent Act, Pigeon J., speaking for the majority, stated:

I have underlined by law [in s. 42] to stress that this is not a matter of discretion: the Commissioner has to justify any refusal. As Duff C.J. said in *Vanity Fair Silk Mills v. Commissioner of Patents* (at p. 246):

No doubt the Commissioner of Patents ought not to refuse an application for a patent unless it is clearly without substantial foundation....

Some commentators remark that the Canadian courts have in the past excluded certain subject matter from patentability on moral, ethical or policy grounds... While it is true that certain categories of invention were excluded from patentability with these policy concerns in mind, these exclusions were justified by reference to explicit provisions of the *Patent Act*....

Harvard Mouse, above, at paras. 144-145

[37] The Commissioner is thus bound by Canadian patent regime and its interpretation by the Courts. On this she has no discretion. International jurisprudence, and certainly the policies advocated therein, is not determinative, but at most a potential guide when applied correctly and mindfully. As becomes evident, many of the Commissioner's errors stem from her adoption of a policy role and the importation of policies not concordant with Canadian law.

B. *Form and Substance Approach*

[38] Over the past ten years, the Supreme Court has made it clear that an invention is defined by the claims, and that these are to be interpreted in a “purposive manner”: *Free World Trust v. Électro Santé Inc.*, [2000] 2 S.C.R. 1024 (*Free World Trust*). In so doing they explicitly rejected the “form and substance approach” from previous years. In *Whirlpool Corp. v. Camco Inc.*, [2000] 2 S.C.R. 1067 the Court confirmed that purposive construction is to be used in assessing validity and infringement. The rationale given by the Court included not only a desire for consistency, but also recognition that the intention of the author of the patent – determined with a mind willing to understand – is integral to the operation of the patent regime. A subjective examination of the “substance” of the claims leads to uncertainty. As stated in *Free World Trust* at paragraph 46:

Once the inquiry is no longer anchored in the language of the claims, the court may be heading into unknown waters without a chart. The one-step approach has to build flexibility and common sense into the initial claims construction because there is no second step.

[39] Instead of relying on these, now basic, principles of claim construction, the Commissioner returns to language such as “form and substance” and “what has been discovered” as articulated in earlier case law. Although the Commissioner attempts to confine this analysis to patentable subject matter, a return to ‘form and substance’ language, no matter what the context, is confusing and unnecessary. Further, it represents a departure from the clear direction of the Supreme Court to apply purposive construction universally.

[40] Section 2 of the *Patent Act* requires an invention to be “new and useful”. Speaking for the Court in *Calgon Carbon Corp. v. North Bay (City)*, 2005 FCA 410, Rothstein JA (as he then was) gave a simple interpretation of this requirement: “Useful points to practicality as opposed to theory. New means that there is a contribution to knowledge, something that was not known before” (at paragraph 10). It is thus not wrong to speak of “what has been invented” so long as this is determined with reference to the essential elements as disclosed through purposive construction of the claims, rather than through a subjective, secondary consideration by the Patent Office as to the “substance of the invention”.

[41] The stated goal of the Commissioner, to avoid raising form over substance, is secured through a purposive construction of the claims. Reading the claims with a “mind willing to understand” does not translate into wilful blindness. Purposive construction captures the substance of the claims in determining their essential elements. If the inventor is simply claiming an idea, or a theory, the means of implementation (i.e. a human mind or a computer) could be replaced and the invention would remain in essence the same. Thus, the decision in *Schlumberger*, notwithstanding the fact that it was decided close to twenty years before *Free World Trust*, would suggest that where a computer is not an “essential element” it does not constitute the substance of the invention.

[42] The rejection of purposive construction, and in essence a holistic consideration of the claims, also allowed the Commissioner to parse the claims into their novel and non-novel components in order to evaluate patentability. As discussed above, it is problematic to suggest that “what has been discovered” stands apart from the claims as a whole. This is particularly so where

the Commissioner has found that what is claimed is novel (although certain elements were old) and not obvious.

[43] Principally, the Commissioner's conclusions are not supported by Canadian law. Although *Shell Oil* defines "art" as adding something to human knowledge, there is no suggestion that this 'contribution' be assessed apart from the invention as a whole. It is conceivable, and indeed expected, that some elements of the invention are not new. In fact, in *Shell Oil* the compounds at issue were old. The Court, however, did not leave the compounds out of the analysis of the subject matter; they were clearly part of the invention. It is contrary to settled law to purport to look at 'what has been invented' and 'substance' by failing to look at the invention as a whole.

[44] The decision in *Progressive Games* is also illustrative. The trial judge found that the physical manipulation of cards met the application aspect of the test in *Shell Oil*, a finding upheld on appeal. Of course, the use of cards is not novel. The rules in and of themselves are just an idea; but they require the use of cards in order to constitute the whole "invention" or even "inventive concept". The patent was found non-statutory because *nothing of substance* had been added, not because the rules, which were claimed to be new, were excluded matter. *Schlumberger*, the case relied on by the Commissioner, and its unique circumstances were discussed above: the Court did not appear to consider the computer an 'essential element' in the invention.

[45] Finally, to the extent the Commissioner relies on jurisprudence from the United Kingdom to show the "actual contribution" of the invention and the extent to which it is statutory must be

assessed; her discussion is incomplete and pointed in the wrong direction. Both *CFPH* and *Aerotel*, the two cases cited, concern the interpretation of Article 52 of the EPC and thus, as discussed above, have little application in the Canadian context. The attempt to articulate this test seems to be in part a function of the “as such” clause in article 52(3); subject-matter is excluded “only to the extent” that a patent relates to it “as such”. No such provision exists in Canada. The decisions also make it clear that this is an unsettled area and there has been little consistency in the “approach” which should be adopted in undertaking this analysis. Indeed, the Commissioner herself recognizes that Europe and the UK have different ideas as to when the novelty of a contribution should be assessed. Finally, the decision in *CFPH* actually suggests that, unlike some “hard exclusions”, discoveries – which are excluded but as a “soft” exclusion – should not be assessed apart from the invention as a whole:

The detractors of your patent are not allowed to say: the discovery does not count and the rest was obvious. They are not allowed to dissect your invention in that way. The discovery is an integral and all-important part of your invention. The law does not object to that. It only objects when you try to monopolize your discovery for all purposes [...]

CFPH, above, at para. 34.

[46] American courts have also rejected the idea that the claims be separated on the basis of what is new and what is not. For the reasons discussed above, I find this jurisprudence more applicable and the reasoning employed more persuasive but not determinative. As stated by the majority of the Court of Appeals for the Federal Circuit in *Bilski/USCA* at 1394:

(T)he Court has made clear that it is inappropriate to determine the patent-eligibility of a claim as a whole based on whether selected limitations constitute patent-eligible subject matter...*Diehr*, 450 U.S.

at 188 (“It is inappropriate to dissect the claims into old and new elements and then to ignore the presence of the old elements in the analysis.”) After all, even though a fundamental principle itself is not patent-eligible, processes incorporating a fundamental principle may be patent-eligible. Thus, it is irrelevant that any individual step or limitation of such processes by itself would be unpatentable under § 101...

[47] The Commissioner has simply adopted a novel legal test by which to assess patentable subject-matter. It is not supported by recent Canadian jurisprudence or the *Patent Act*. This is an error of law and far outside the Commissioner’s jurisdiction.

C. *Definition of Art/Change of Character or Condition*

[48] On a preliminary note, it is immaterial that the Commissioner discussed the definition of “art” only and more generally and did not consider “process” separately. It is generally accepted that “method” and “process” are the same thing and that ‘art’ may *include* either: see *Lawson*, above, at para. 34 citing to *Refrigerating Equipment Ltd. v. Drummond & Waltham System Inc.*, [1930] 4 D.L.R. 926 at 937. Indeed, many of the principal cases dealing with what is an art have in fact concerned processes, *Shell Oil* being a prime example. The issue is whether in her discussion of “art” the Commissioner adopted the correct legal definition, encompassing the courts’ interpretation of patentable processes.

[49] The Appellant alleges that the Commissioner has adopted too restrictive a definition of ‘art’ by ignoring *Shell Oil* and returning to the “physical manipulation” test outlined in *Lawson*. I note, however, that the Commissioner explicitly discusses *Shell Oil*; the reference to *Lawson* is within the

context of that decision. The crux of the debate is her interpretation of *Shell Oil* to mean that “practical application” necessarily includes the change of character or condition in a *physical object*. I also note that she has injected a requirement that the “new learning or knowledge” outlined in *Shell Oil* be technological or scientific in nature.

[50] *Shell Oil* is unequivocally the starting point for the definition of a patentable ‘art’. It focuses the inquiry on whether there is a practical application of the 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". The appellant's discovery in this case has added to the cumulative wisdom on the subject of these compounds by a recognition of their hitherto unrecognized properties and it has established the method whereby these properties may be realized through practical application. In my view, this constitutes a "new and useful art" and the compositions are the practical embodiment of the new knowledge.

At 549

[51] The decision in *Lawson* is forty years old and was a useful starting point in *Shell Oil* for Wilson J to discuss a “more expansive” definition of art. However, it is not the authoritative guide for what constitutes patentable art. Although Wilson J did not reject the decision, she referred to it as part of the ongoing effort to create a wider definition which explicitly stepped beyond manufacture of goods and even manufacturing techniques:

In *Tennessee Eastman Co. v. Commissioner of Patents* ... (t)he Court, however, affirmed that “art” was a word of very wide

connotation and was not to be confined to new processes or products or manufacturing techniques but extended as well to new and innovative methods of applying skill or knowledge provided they produced effects or results commercially useful to the public. An effort to articulate this broader concept of the term "art" was made by Cattanach J. in *Lawson v. Commissioner of Patents* (1970), 62 C.P.R. 101. In that case a patent was being sought on a new method of describing the boundaries of a plot of land. The application was rejected, again not because the subject-matter of the application was not an "art" within the meaning of the definition in the Act but because, like the new use for the adhesive in *Tennessee Eastman*, it related to professional skills rather than to trade, industry or commerce. In the course of his reasons Mr. Justice Cattanach said at pp. 109-10;

An art or operation is an act or series of acts performed by some physical agent upon some physical object and producing in such object some change either of character or of condition. It is abstract in that, it is capable of contemplation of the mind. It is concrete in that it consists in the application of physical agents to physical objects and is then apparent to the senses in connection with some tangible object or instrument.

In the earlier development of patent law, it was considered that an invention must be a vendible substance and that unless a new mode of operation created a new substance the invention was not entitled to a patent, but if a new operation created a new substance the patentable invention was the substance and not the operation by which it was produced. This was the confusion of the idea of the end with that of means. However, it is now accepted that if the invention is the means and not the end, the inventor is entitled to a patent on the means.

At 554-555

[52] There are thus three important elements in the test for art as articulated by Wilson J.: i) it must not be a disembodied idea but have a method of practical application; ii) it must be a new and inventive method of applying skill and knowledge; and iii) it must have a commercially useful

result: *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.).

[53] The practical application requirement ensures that something which is a mere idea or discovery is not patented – it must be concrete and tangible. This requires some sort of manifestation or effect or change of character. However, it is important to remain focused on the requirement for practical application rather than merely the physicality of the invention. The language in *Lawson* must not be interpreted to 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 that through a machine such as a computer.

[54] As the Supreme Court reminded us in *Harvard Mouse*, not everything under the sun is patentable but the definition of invention in the *Patent Act* is broad and encompasses “unforeseen and unanticipated technology” (at paragraph 158). 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.

[55] Jurisdictions with patent regimes similar to our own have also struggled to pin down what is required to bring an idea or a discovery beyond simply that. As mentioned above, the US Supreme Court delivered the decision in *Bilski/USSC* quite recently, squarely addressing patentable processes. While the decision does not answer all questions of US patentability of business processes, it appears that the US Supreme Court rejected the “machine or transformation” test as in

violation of the expansive interpretation which should be given to §101 (the equivalent to our s. 2) – they saw nothing in the statute or in the plain meaning of language which would require “process” to be tied to a machine or an article. In essence, they rejected the type of physicality advocated by the Commissioner. The majority called it “a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes under § 101” (slip op. At 8). Four of the justices went on to discuss the changing nature of technology and the limitations posed by this type of thinking:

The machine-or-transformation test may well provide a sufficient basis for evaluating processes similar to those in the Industrial Age – for example, inventions grounded in a physical or other tangible form. But there are reasons to doubt whether the test should be the sole criterion for determining the patentability of inventions in the Information Age.

Slip op. at 9

[56] The US Court also recognized the need for some sort of balance, and stressed that it was not commenting on the patentability of all these new technologies. The facts of the case – the invention disclosed was found to be an abstract idea – did not require further comment from the Court on exactly how far in the opposite direction it was willing to go.

[57] Australian jurisprudence is also useful; that regime has not followed the United Kingdom (Australia relies on a definition of invention rather than exclusions) and several courts have looked instead to American jurisprudence for guidance on patentability; see *CCOM Pty Ltd v. Jiejing Pty Ltd* (1994) 28 IPR 481 (*CCOM Pty*) and *Grant v. Commissioner of Patents* [2006] FCAFC 120 (*Grant*). In *CCOM Pty* the Court confirmed that the leading case law on the patentability of

processes “requires 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” (at 514). *Grant* specifically considered whether what was alleged to be a “business method” was patentable. The Australian Federal Court noted that an “artificially created state of affairs” was meant in the sense of a “concrete, tangible, physical or observable effect” (at paragraph 30):

[32] A physical effect in the sense of a concrete effect or phenomenon or manifestation or transformation is required. In NRDC, an artificial effect was physically created on the land. In *Catuity* and *CCOM* as in *State Street* and *AT&T*, there was a component that was physically affected or a change in state or information in a part of a machine. These can all be regarded as physical effects. By contrast, the alleged invention is a mere scheme, an abstract idea, mere intellectual information, which has never been held to be patentable, despite the existence of such schemes over many years of the development of the principles that apply to manner of manufacture. There is no physical consequence at all.

[Emphasis added]

[58] The Australian Court’s interpretation of physical effects is quite broad. It is on point, however, as some sort of embodiment or change in state is required. This is consistent with the notion that for something to show practical application it must manifest in some way so that it is no longer simply a scheme or idea. However, that this does not mean that the “physical effect” – whatever it may be – must be of the inventive concept itself. As stated earlier, in *Progressive Games, above*, manipulation of the cards was enough to constitute a practical application of the idea. The rules themselves were used in such a way so as to create a change in character or effect. They themselves did not change form.

[59] Further, it is not necessary for the material objects in question to physically change into another thing. Justice Denault, writing the trial decision in *Progressive Games*, explicitly rejected the Commissioner's finding that the subject matter was non-patentable because "there was no change in character or condition of any material objects" (at para. 8).

[60] The Commissioner's articulation of the test for art is too restrictive in requiring, as discussed in greater detail below, that the knowledge in question be scientific or technological in nature. Further, her application of the test suggests that the goods themselves must be changed in some way. Her interpretation of practical application does not take into account a wider definition of physical, "change in character or condition" or the concrete embodiment of an idea.

D. *"Business Method Exclusion"*

[61] There is no basis for the Commissioner's assumption that there is a "tradition" of excluding business methods from patentability in Canada. The only Canadian jurisprudence cited was made as *obiter* and in dissent by Arbour J. in *Schmeiser*.

[62] The Commissioner's Reasons even indicate an awareness of contradiction presented by the Commissioner's previous reliance on *State Street*, a decision which clearly endorsed the patentability of business methods. 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.

[63] The Commissioner’s reliance on the UK jurisprudence is misguided for the reasons discussed above. There is not, nor has there ever been, a statutory exclusion for business methods in Canada as there is in the UK. A 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.

[64] The implicit suggestion that the American jurisprudence supports this exclusion is not sustainable. The Commissioner’s citation of the concurring decision in *Bilski/USCA* fails to mention that the majority’s reasons clearly rejected the determination of patentability with reference to a “business method” category:

We further reject calls for categorical exclusions beyond those for fundamental principles already identified by the Supreme Court. We rejected just such an exclusion in *State Street*, noting that the so-called “business methods exception” was unlawful and that business method claims (and indeed all process claims) are “Subject to the same legal requirements for patentability as applied to any other process or method”... We reaffirm this conclusion.

Bilski/USCA, above at 1396

[65] The majority in *Bilski/USSC* affirmed this conclusion, making reference to the fact that the word “method” is within the definition of “process”. They noted that this did not mean all business methods would be patentable, noting that they are subject to the same requirements as other inventions under the Act.

[66] The Australians have adopted similar language:

[26] We do not consider that the question here is whether a business system, in the sense of a system for use in a business, is or is not patentable. Patent protection is afforded to an invention that complies with the requirements of the Act, including manner of manufacture. The fact that a method may be called a business method does not prevent it being properly the subject of letters patent; see *Catuity* at [125]–[126].

...

[47] Mr Grant’s asset protection scheme is not unpatentable because it is a “business method”. Whether the method is properly the subject of letters patent is assessed by applying the principles that have been developed for determining whether a method is a manner of manufacture, irrespective of the area of activity in which the method is to be applied. It has long been accepted that “intellectual information”, a mathematical algorithm, mere working directions and a scheme without effect are not patentable. This claim is “intellectual information”, mere working directions and a scheme. It is necessary that there be some “useful product”, some physical phenomenon or effect resulting from the working of a method for it to be properly the subject of letters patent. That is missing in this case.

Grant, above [Emphasis added]

[67] It is noteworthy that in both the above cited cases the claimed inventions were found to be non-patentable subject matter. Not, however, because they were business methods but because they were mere “schemes” or disembodied ideas. To put it into the Canadian context, they did not have a practical application. In this sense a mere business scheme will have no practical embodiment and, like any other abstract idea or theorem, will of course be non-patentable. That is not the case with the business method claimed in the present case.

[68] The approach in the USA, Australia, and as it ought to be in Canada, makes an eminent amount of sense given the nature of our legislation. It allows business methods to be assessed pursuant to the general categories in s. 2 of the *Patent Act*, preserving the rarity of exceptions. It also avoids the difficulties encountered in the UK and Europe in attempting to define a “business method”. There is no need to resort to such attempts at categorization here. Contrary to what the Commissioner suggests, to implement a business method exception would be a “radical departure” from the current regime requiring parliamentary intervention.

E. *“Technological” Requirement*

[69] The Commissioner’s decision introduced one more novel and unnecessary requirement for patentability into the Canadian patent regime: the technical or technological requirement. She also suggests that “new and useful knowledge” must be “scientific or technological” in order to constitute a patentable art. Thus, according to this reasoning, one must now assess whether an invention – and specifically what has been added to human knowledge – is technological in nature.

[70] In fairness, in this instance the Commissioner does glean some of her rationale from the language in the Patent Rules and Canadian jurisprudence, but this does not translate into an endorsement or imposition of a “technical test”. There is no reference to such a test in the Canadian jurisprudence (or none was advanced in this Court). It was not within the Commissioner’s jurisdiction to introduce one. Once again, the Commissioner’s heavy reliance on the “technical contribution approach” as discussed in the UK did not correspond with the reality of our *Patent Act* or recognize the range of opinions as to its application and appropriateness. It is not a simple test but a challenging feature of their regime and a “horribly imprecise concept”: *CFPH*, above at paragraph 12.

[71] Even if patents generally concern the protection of advances in technology broadly defined, 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. It would be highly subjective and provide little predictability. Technology is in such a state of flux that to attempt to define it would serve to defeat the flexibility which is so crucial to the Act. This view is supported by authorities in both the USA and Australia: see *Bilski/USCA*, above at 1395 and *Grant*, above at paragraph 38. The current assessment of subject matter, without reference to such concepts, is preferable.

VI. APPLICATION TO THE PATENT AT ISSUE

[72] Having determined that the Commissioner fundamentally erred in the legal principles used to determine patentability this Court will now examine the claims *de novo* in order to determine whether they are patentable subject matter.

[73] The Court finds that a purposive construction of the “system claims” (e.g. claim 44 and its associated dependant claims) clearly discloses a machine which is used to implement Amazon.com’s one-click ordering system. The described components (e.g. a computer) are essential elements in implementing an online ordering process. This is not merely “a mathematical formula” which could be carried on without a machine or simply a computer program. A machine is patentable under s. 2 of the *Patent Act*. The Commissioner herself found that “in form” the claims disclosed such an invention; it was only when she took a second step to subjectively consider the “substance” that she found otherwise. As discussed, this is unsupported in law. The Court therefore finds the machine claims to be patentable subject matter.

[74] Turning to the process claims, the Commissioner clearly erred by “parsing” the claims into their novel and obvious elements in order to assess patentability. When viewed as a whole it is clear that the claimed invention is a process which uses stored information and ‘cookies’ to enable customers to order items over the internet simply by ‘clicking on them’. It is accepted that the “one-click” method is novel; the Court finds that an online ordering system which facilitates this adds to the state of knowledge in this area.

[75] The new learning or knowledge is not simply a scheme, plan or disembodied idea; it is a practical application of the one-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.

[76] It is undisputed that this invention has a commercially applicable result and is concerned with trade, industry and commerce. Indeed, its utilization in this very realm seems to be at the root of the Commissioner’s concern.

[77] In light of the above, the Court finds the process claims to be a patentable as an art and process. As discussed at length earlier in this decision, there is no need to continue the analysis once this has been determined. There is no exclusion for “business methods” which are otherwise patentable, nor is there a “technological” test in Canadian jurisprudence. Even if there was some technological requirement, in this case the claims, when viewed as a whole, certainly disclose a technological invention.

VII. CONCLUSION

[78] 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.

[79] There may be (and the Court is not suggesting that there are) other reasons why the Commissioner might have rejected this patent. One might question the sufficiency of disclosure in the system claims but no one has claimed that it was insufficient. That matter was not considered by the Commissioner. The Examiner's principal finding was in relation to obviousness. In both the United States and Europe there have also been concerns as to whether the claimed invention was obvious. The obviousness analysis, however, should not occur at the "patentable subject matter" stage of the analysis. A finding that there has been new learning or knowledge which has contributed to the state of the art does not entail, nor should it pre-empt, an obviousness analysis. It is a separate test which asks whether one would be led to the "new knowledge" easily and without difficulty, not whether it adds to the state of the art.

[80] Although clearly not determinative of this decision, the Court notes that this invention has been found to be patentable subject matter in several other jurisdictions, including in the United States and in Europe. In the latter, despite an explicit exclusion for "business methods", the claims were not found to be such.

[81] The misapprehension of the Commissioner and the Examiner as to the patentability of the subject-matter in these claims is a fundamental error of law, one which may have tainted the entire analysis. No evidence was given to this Court as to the validity of the claims in other respects. As such, the Court cannot evaluate them in any regard beyond the issues argued on this appeal and will not grant the Patent as requested by the Appellant.

[82] The Court allows the appeal with respect to the Commissioner's findings on statutory subject-matter. The Commissioner's decision is quashed and is to be sent back for expedited re-examination with the direction that the claims constitute patentable subject matter to be assessed in a manner consistent with these Reasons.

JUDGMENT

THIS COURT ORDERS AND ADJUDGES that the appeal is allowed with respect to the Commissioner's findings on statutory subject-matter. The Commissioner's decision is quashed and is to be sent back for expedited re-examination with the direction that the claims constitute patentable subject matter to be assessed consistent with the Reasons for Judgment. The Appellant shall have their costs on a party and party basis in the usual manner.

“Michael L. Phelan”

Judge

FEDERAL COURT
SOLICITORS OF RECORD

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and

THE ATTORNEY GENERAL OF CANADA, and
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