A Business Method is Not a Patent

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Israel's Registrar of Patents, Dr. Meir Noam, recently denied a patent application of a (computerized) business method or system which promoted the sale of products or services by way of discount coupons.

This precedent setting decision established that a business method cannot be patented in Israel. Because the patent application involved a computerized system, the decision also dealt with the granting of patents for computer software and explained when and under what circumstances a patent could be granted for computer software.

The Registrar based most of his significant decision on an article written by Dr. Yuval Karniel and Mr. Yosi Sivan printed in the Law, Media and Technology Yearbook published by the Academic College of Law.

Israeli law establishes what type of invention can be registered as a patent. Article 3 of the Patent Law, 5727 – 1967 provides that:

> **"An invention, whether a product or a process, which is new, useful and fit for industrial use and which consists of an original step, is a patentable invention."**

Thus, an invention may be patentable if all the following conditions are present:

A. The invention relates to a product or process in the field of technology.
B. The invention is new (from a worldwide perspective).
C. The invention consists of an original step, meaning the invention is not obvious to the average professional based on the information that was published prior to the determining date.
D. The invention is useful and may be applied in industry.

Theoretically, an invention of a business method cannot be patentable under these definitions in the same way as inventions in art, education, sociology and psychology are not, due to the lack of the technological component.

There are differences in practice and theory in various countries around the world relating to the patentability of a business method. Both the English parliament and the European patent treaty exclude business methods from the general definition of a patentable invention. On the other hand, under American law, there is theoretically no obstacle to registering a patent involving business methods and in fact the American courts recognize business methods as patentable inventions.

The American approach is based on the line of cases beginning with the State Street Bank case (1998), which established that software-enabled business methods are patentable. The software and computer system in the State Street case were viewed as a machine, which is statutory subject matter, and the computations performed were considered a practical application, providing a useful, concrete and tangible result.

An Australian court recently ruled (Grant v. Comm'r. of Patents) that an invention is not excluded from patentability merely because the invention relates to a business method. Thus, Australia will consider the patentability of a novel and inventive business method, the working of which result in a useful product, or a physical effect or phenomenon.

Since in Israel, a business method in and of itself is not patentable, the question then becomes whether computer software is patentable and if so, can it be used as the means to register a business method as a patent.

In Israel, computer software in and of itself is not patentable but is protected by article 2(a) of the Copyright Law as a literary creation:

> **" For purposes of copyright, computer software shall be treated like a literary work, within the meaning of that term in the Copyright Law, 1911. In this ordinance, "Computer software" - whether it is a source or object code".**

An invention that contains a physical technological system that is operated by a new computer program which is designated only for the operation of that physical system is called a hybrid invention. The invention is called a hybrid since it is composed of a new physical technological system that is patentable and a computer program which is not.

A person who writes source code for a new word processing system, for example, or a new graphic system, will be unable to patent his work, however, if the code is specifically intended to operate a physical technological system, where the software forms an integral and inseparable part of that system, the entire system, including the embedded software, may be patented.

A business method in and of itself cannot be patented. A computer program also is not patentable on its own, thus it should be clear that a computer program cannot be used to register a business method as a patent for purposes of, say, e-commerce or a computerized business management system.

There is also the case of a business method which is combined with a new physical technological system containing computer software.

The Patent Registrar labeled this type of instance as a double hybrid invention. The part of the computerized system containing the software is a hybrid and the combination of the entire arrangement together with the business method is also a hybrid. In this case an examination must be made of the true essence of the invention. If the essence is the system (similar to a physical technological system that consists of software where the software is subordinate to the system) then a patent will be granted, but if the business method is the principal, then a patent will not be granted.

In summary, the decision of the Patent Registrar provides that in Israel a patent cannot be obtained for business methods or any computer software in and of itself. The Israeli law thereby adopted the theories of most European and world countries and

rejected the recent American practice of allowing Internet business methods to be patented.

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