Legal update

Patenting database marketing software

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Abstract Database marketing is, by its very nature, a software-driven business. An enormous range of software products covers the wide variety of applications that arise in this field, and use of appropriate software can make the difference between database marketing success and failure. Since a company's software requirements are intrinsically linked to its particular business, some companies buy bespoke packages and others even write their own code. Despite software being such an essential resource, however, some database marketers and the software companies which supply them may not have considered the issue of the extent to which computer software is patentable. This issue has recently been hotly debated in Europe because of proposals for a new European Directive on the patentability of computer-implemented inventions. This has major implications for software developers and users, including those in the database marketing field. This paper explores the potential significance of software patenting for database marketers and software developers and provides an overview of the present position.

INTRODUCTION

In their simplest terms, patents are a bargain struck between inventors and the state. Inventors obtain 20 years of patent protection entitling them to enforce their monopolies in the courts to prevent or restrain unauthorised use of their inventions. This encourages innovation and, in return, the inventors disclose their inventions and how to work them, potentially allowing others to benefit. However, not all new innovations can be patented. Certain innovations are specifically excluded from patentability. Computer programs are one of the excluded categories. Other exclusions include methods of doing business, presentation of information and mathematical methods.¹ This raises the

issue of whether computer software can be patentable.

As with many other areas of the law, whether a patent actually covers a program for a computer is not necessarily a simple question. The European Patent Office (EPO) was thought to have granted over 30,000 software-related patents by February 2002² and a more recent estimate puts the figure at 50,000 — all of which, it has been suggested, have a potentially questionable legal basis.³ It is therefore unsurprising that several years ago the European Commission proposed a Directive on the patentability of computer implemented inventions,⁴ the principal aim of which was to clarify the law in this area. What perhaps came as more of a shock was the fervent debate

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that followed these proposals, with the potential hurt they could cause to small- and medium-sized enterprises (SMEs) being highlighted as a particular concern.

At the time of writing, the proposed Directive looks to have fallen at a critical stage. Many database marketers and software developers are SMEs, and the decisions that have been taken have implications for those engaged in this software-driven business. With this background in mind, this paper describes the current status of the proposed Directive and considers the potential significance for database marketers and their software suppliers. To put the proposals into context, it also provides an overview of the current state of the law on the patentability of computer software in the UK and at the EPO.

WHY SHOULD THE DATABASE MARKETING SECTOR CARE ABOUT SOFTWARE PATENTS?

Whilst patents promote innovation by encouraging investment in research and development, concerns are sometimes expressed about the fact that most are vested in the hands of large companies which have the wherewithal to apply for and enforce them. SMEs are less likely to be able to afford the fees involved in processing a patent application, nor the legal expenses of enforcement by commencing a patent infringement action. Likewise, lack of resources may put them in a weaker position if they are taken to court as the alleged infringers of a large multinational company's patent, perhaps forcing them to settle on unfavourable terms even where their case would have been a strong one.

The extent to which computer software patenting is permitted will inevitably affect database marketers and the software companies which supply them. Niche software companies which specialise in

marketing programs are likely to be SMEs and more software patents will broaden the scope for patent infringement. Patents confer a true monopoly on their owners by contrast with copyright (the other main form of software protection), which enables infringement proceedings to be brought only where there has been copying. Inadvertent use of a patented invention on the other hand can infringe even where there has been independent creation. Database marketers could even run into patent infringement problems themselves if they seek, as some do, to develop their own database marketing programs and relevant aspects of those programs had been patented. Furthermore, if marketing software had patent protection this might well affect the price at which it was sold, with patent-owning software developers able to charge more for programs that face a lesser degree of competition. Conversely, the larger software companies supplying the database marketing sector would most likely welcome a wider degree of software patentability, with the fruits of their research and development costs being more adequately protected. All patent-owning companies in the field would also welcome the increased legal certainty that would be provided by a more comprehensive description of what is and is not patentable. For these reasons software patentability is relevant to all in the sector, with potential patent owners likely to be on one side of the debate about the extent to which software should be patentable and SMEs and database marketers on the other.

THE LAW ON SOFTWARE PATENTABILITY IN THE UK AND EUROPE

Throughout the debate about software patentability, applications for software-related patents have been made to

the UK and European Patent Offices, and decisions about whether to grant such patents have been made. The recent decision in *Frank's Application*⁵ before the UK Patent Office, provides a concise overview of the current state of the law in the UK and at the EPO. The decision concerned four related patent applications concerning computer-implemented methods of filing trade mark applications. The fact that computer programs are an excluded category does not necessarily prevent a software-related innovation being patentable. The exclusion for computer programs only applies where the patent seeks to cover the excluded thing 'as such', and this has been interpreted by the UK courts to mean that patents can be granted for things in excluded categories if they make a 'technical contribution'. A computer program will not become patentable simply because it is dressed up in the guise of an article with technical features, however — eg in the case of a computer program, a patent seeking to cover a conventional computer containing the program⁶ — and it is the question of what this 'technical contribution' requires which gives rise to the majority of the uncertainty that surrounds the patentability of software.

It is also on this point that the patent laws of the UK and EPO start to diverge. The Hearing Officer in *Frank's Application* recognised this inconsistency as potentially undesirable, but elected to follow the approach of the English Court of Appeal in *Fujitsu*,⁷ whereby having technical character or technical elements was not in itself sufficient for a 'technical contribution'. He set out the following principles to be applied in such applications:

'First, it is the substance of the invention which is important rather than the form of claims adopted. Moreover, merely including hardware or technical elements in the claims is

not sufficient under UK law for the exclusions to be avoided;

'Second, the effect of the final part of section 1(2) is that an invention is only excluded from being patentable if it amounts to one of the excluded areas 'as such' and that following decisions of the UK courts and the EPO Boards of Appeal, an invention is not considered to amount to one of those thing 'as such' if it makes a technical contribution;

'Third, whether an invention makes a technical contribution is an issue to be decided on the facts of the individual case;

'Fourth, it is desirable that there should be consistency between the Patent Office's and EPO's interpretation of the exclusion in the Patents Act and the EPC. However where there is a divergence I am bound to follow the approach adopted in the UK courts;

'Finally, any doubt over the patentability of the invention should be resolved in favour of the Applicant.'

The English approach contrasts with recent EPO decisions (in particular *Hitachi*⁸ on which Mr. Frank sought to rely), which have tended to suggest that the presence of any technical means in a claim is sufficient to avoid the exclusion. That said, the Comptroller noted that whilst the EPO's approach on the ambit of the exclusion differed, its approach to another requirement of patentability, the need for an inventive step (ie that the claimed invention is not obvious),⁹ meant that the end result would (as in the case of Mr. Frank's and Hitachi's applications, which were refused by the UK and European Patent Offices, respectively often be the same.

Whilst this may be the case, the different approaches taken by the EPO and the English courts could lead to significant inconsistencies between decisions of the UK and European Patent Offices as to whether to grant software-related patents, and they complicate this area of the law. They also create uncertainties for those seeking to patent their software-related innovations

and for software users and other software developers as to what they can reasonably expect to be protected by a patent. For these reasons, a Directive clarifying what is and what is not patentable would seem, on the face of it, to be a good thing.

THE STATUS OF THE PROPOSED DIRECTIVE

What was initially thought to be a relatively uncontroversial proposal aimed at providing legal certainty has turned out to be anything but that, however. The proposals for the Directive originated from the European Commission in February 2002.¹⁰ They followed a lengthy consultation period that had already brought into focus the tensions between industry — which tended to welcome an increase in patent protection for computer programs — and the open-source software community, which to a large extent advocated an outright ban on software patents. Rather than significantly changing the availability of patents for computer-implemented inventions, the Commission sought to maintain the status quo by providing a comparable amount of protection to that already available in a way that clarified what was and what was not patentable.¹¹ The main focus of the proposals was on the need for a non-obvious, technical contribution for computer-implemented inventions to be patented.

The legislative procedure adopted by the Commission (the so-called 'co-decision' procedure) requires the agreement of both the European Parliament and the European Council in order that the Directive be enacted. By the time of the first reading of the Directive in the European Parliament, intensive lobbying of MEPs — particularly by the open source software community and groups representing

SMEs — led the Parliament to vote in favour only after some significant amendments had been made that would dramatically limit its scope and significantly reduce the availability of patent protection. In particular, the Parliament suggested a wider exclusion permitting the use of patented technology for interoperability (eg use of patented technology necessary to ensure the communication and exchange of data between two different networks or systems) and data handling.

By contrast, the Council reached a political agreement on a text of the Directive much more akin to the Commission's less restrictive initial draft in May 2004, but only by a slim, qualified majority; Austria, Italy and Belgium having abstained and Spain having voted against. There was then a ten-month delay, complicated by the need to translate the agreement into all 20 languages of the newly-enlarged EU, and by further political opposition, before the agreement was adopted by the European Council as a so-called 'Common Position' in March 2005.¹² Indeed Poland, which was one of the new states and the most ardent dissenter at the time, managed to stall the process preventing the earlier intended adoption of the Common Position in December 2004.

The most recent stage in the proposals involved the European Council's Common Position being transmitted to the European Parliament for a second reading and a vote. The scene was set for this to be a turbulent time, with the former French prime minister, Michel Rocard, already having delivered an unfavourable opinion¹³ on the Council's proposal in his capacity as Rapporteur to the lead parliamentary committee, the Legal Affairs Committee (JURI). The amendments which he proposed were much more restrictive, suggesting a serious divide between the Council and

Parliament's positions. Surprisingly, however, there was then an indication that the vote might go in favour of the Council's proposals when the parliamentary committee itself voted in June 2005 to reject most of the suggested amendments and to adopt the Directive largely in the form approved by the Council.

The Committee's vote proved not to represent the will of the Parliament, however, which, in a dramatic turn of events, voted on 6 July 2005 by an overwhelming majority (648 to 14) to reject the Council's Common Position.¹⁴ The legislative procedure used means that the European Parliament's vote has effectively brought the proposals for the Directive to an end in a way that is likely to mean they will not become law in any form in the foreseeable future.

CONCLUSIONS

The extent to which software is patentable has potentially significant implications for database marketers and software developers, some of which are likely to be for and others against the wider availability of patents for computer software. Patents covering software-related inventions are being granted in the UK and European Patent Offices, but the rules governing which computer-implemented inventions are eligible for protection are presently not clear. Whilst this made the adoption of a Directive to clarify the law desirable, the heated debate that emerged on the extent to which software should be patentable made it very difficult to reach agreement. This was typified by the very different forms of the proposed Directive adopted by the European Parliament and the Council and ultimately resulted in the proposals for the Directive being rejected by the Parliament, effectively bringing them to an end. These

developments mean that, for the foreseeable future at least, there is unlikely to be a European Directive clarifying the law in relation to software patents. Whilst this is a blow to large software developers, small niche software houses and database marketers may be happy to live with the present uncertainties and retain the status quo.

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References and notes

- 1 Section 1(2), Patents Act 1977 and Article 52 of the European Patent Convention (EPC).
- 2 The 'Proposal for a Directive on the patentability of computer-implemented inventions — frequently asked questions' (dated 20 February, 2002) suggested that more than 30,000 software-related patents had been granted since the EPC establishing the EPO came into force in 1978.
- 3 Estimate taken from the working document on the patentability of computer-generated inventions dated 13 April, 2005, which was produced by Rapporteur Michel Rocard as described in more detail below.
- 4 The 'Proposal for a Directive of the European Parliament and Council on the patentability of computer-implemented inventions' presented by the Commission, dated 20 February, 2002 (COM(2002) 92 final).
- 5 Decision of the Comptroller of the UK Patent Office dated 28 January, 2005 (BL O/24-27/05).
- 6 Per Fox LJ in *Merrill Lynch's Application* [1989] RPC 561 at 569.
- 7 *Fujitsu's Application* [1997] RPC 608.
- 8 Decision of the EPO Technical Board of Appeal (T 0258/03).
- 9 In relation to which the *Hitachi* decision suggests that, in the EPO, only features contributing to the technical character can be taken into account when assessing whether the claimed invention includes an inventive step.
- 10 See footnote 4 above.
- 11 For further commentary on the initial proposals from the Commission, see Batteson, A. (2002) 'EU Software Patents Directive: A missed opportunity?', *In-House Lawyer*, April, pp. 60–62.
- 12 Again, this was with significant reservations being expressed by a number of member states as described in Anon (2005) 'Proposed EU Directive on the patentability of computer-implemented inventions: The legislative process, the politics, and the law', *CIPA Journal*, April, pp. 210–220.
- 13 See the document referred to in footnote 3.
- 14 See, for example, the article entitled 'Software patent bill thrown out', published on the BBC website (<http://news.bbc.co.uk>) on 6 July, 2005.