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Which Way Europe? The Controversy Over Computer-Implemented Inventions

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Software and Internet companies will want to keep a close eye on Europe over the next few months for a showdown between the European Council (Council) and the European Parliament (EP) over a controversial draft Directive on the Patentability of Computer-Implemented Inventions (CII), that is, any invention implemented on a computer or similar apparatus which is realized, in whole or part, by a computer program.

The draft CII Directive attempts to resolve lingering uncertainty caused by conflicting decisions of the Board of Appeals of the European Patent Office (EPO) and the courts of certain member states. Underlying this conflict is the exclusion from patentable subject matter of software and business methods "as such" set forth in Article 52(2) of the European Patent Convention.

In applying the Article 52(2) exclusion, the EPO practice has been to allow CII patents provided they have a "technical character" and satisfy the other requirements of patentability (i.e., that the invention is novel, capable of industrial application, and involves an "inventive step," meaning, in U.S. parlance, that the invention is non-obvious). In practice, the "technical character" requirement can nearly always be satisfied by the operation of running a program on a computer. However, in enforcing the inventive step requirement in CII patents, the EPO has further required that the invention must make a "technical contribution" through features that are novel compared to the prior art.

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Some Courts Take More Restrictive Approach

The EPO practice has not been uniformly followed. The courts of certain member states have taken a more restrictive approach by relying on a broad reading of the Article 52(2) exclusion to reject CII patents regardless of whether the invention makes a technical contribution to the level of skill in the art. Other member state courts have taken a more lenient view similar to that in the U.S. by allowing CII patents even if the only contribution to the state of the art is non-technical.

If the EP passes the Directive, all member states in the European Union will be required to enact national legislation implementing the Directive.

Drafters of the CII Directive attempted to strike a compromise along the lines of current EPO practice. Under the draft directive, it is not sufficient for the CII patent generally to have a "technical character." To be patentable, the CII must satisfy the distinct patentability requirement of inventive step by making a "technical contribution." As the drafters' Explanatory Memorandum elaborates, this means the CII patent must make a "contribution to the state of the art in a technical field which is not obvious to a person skilled in the art . . . Thus, a computer-implemented invention in which the contribution to the prior art does not have a technical character will be considered to lack inventive step even if the (non-technical) contribution to the prior art is not obvious."

But Nobody likes a Compromise . . .

The open-source community and some small business associations have criticized the draft CII Directive as opening the door to U.S. style software and business method patents. Critics contend that the Directive would stifle the open source movement and harm small business. They characterize the Directive as an ill-conceived attempt to copy the U.S. approach which they believe has resulted in the issuance of overbroad and invalid patents that benefit big business at the expense of small entrepreneurs.

While the U.S. experience in software and business method patents has been mixed, the current draft of the CII Directive clearly does not copy U.S. patent law. Under U.S. law, laws of nature, natural phenomena and abstract ideas are unpatentable. But software, business methods and even algorithms are patentable subject matter provided that they have some type of "practical" application or utility, that is, the invention produces "a useful, concrete and tangible result." *State Street Bank & Trust v. Signature Financial Group*, 149 F.3d 1368, 1373 (Fed. Cir. 1998). The use of computer or similar apparatus in connection with software or a business method generally satisfies this requirement even if the invention makes no contribution to the state of the art in a technical field. Thus, by incorporating the requirement of a "technological contribution" in the inventive step requirement of patentability, the draft CII Directive imposes a requirement not found in U.S. patent law.

Proposals Not Incorporated into Draft Directive

This additional requirement was not enough to allay concerns during the EP's first reading of the CII Directive. Following that first reading, the EP proposed numerous amendments to the Directive most of which were not adopted by the European Council in the current draft. The EP then demanded that the Council rewrite the draft CII Directive from scratch. But the Council refused to restart the process and, on March 7, 2005, it sent the Directive back to the EP for a second reading.

There is no reason to expect a better reception on the EP's second reading, although procedural rules make it more difficult to amend the draft Directive at this stage. The EP must obtain a majority of all members of the EP (not just a majority of all votes) for each amendment it makes. While there has been no shortage of critics of the CII Directive in the EP, they have not all shared the same concerns and they do not always show up for votes, making it questionable whether critics can obtain an absolute majority on specific amendments.

The EP is expected to make a decision on the CII Directive in July of 2005. If the EP passes the Directive, all member states in the European Union will be required to enact national legislation implementing the Directive. If the EP rejects the amendment, the current state of certainty will continue to plague both sides of the debate. In any event, we should soon know which way Europe will go on this important issue. ❑

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