

Industrial Organization in Context

Bilski v. Kappos

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- Following a series of Supreme Court decisions that narrowed some aspects of patent protection, the October 2008 C.A.F.C. *In re Bilski* ruling confirmed the U.S. Patent and Trademark Office's denial of a business method patent for a way to hedge risk in commodities trading.
- The C.A.F.C. found in patent law the requirement for business method patentability that the method either be “tied to a particular machine or apparatus” or “transforms a particular article into a different state or thing” (2007-1130, p. 10). Bilski's method satisfied neither part of this machine-or-transformation test, and was not patentable.
- The C.A.F.C. decision has been appealed to the U.S. Supreme Court.

Bilski v. Kappos

United on outcome, divided on substance

- In its June 8, 2010 opinion, a unanimous Court supported the decision of the U.S. Patent Office to deny Bilski's application for a patent on a method of hedging risk.
- The 5-justice majority took viewed this outcome as consistent with the long-standing interpretation that under U.S. patent law, abstract ideas cannot be patented.
- The four concurring justices would have based the same outcome on a finding that business methods cannot be patented.

In a short separate concurring opinion, Justice Breyer noted four points of agreement between the majority and concurring opinions:

- First, although the text of [the law specifying what inventions are patentable] is broad, it is not without limit. . . . “[T]he underlying policy of the patent system [is] that ‘the things which are worth to the public the embarrassment of an exclusive patent,’ . . . must outweigh the restrictive effect of the limited patent monopoly.” . . . The Court has thus been careful in interpreting the Patent Act to “determine not only what is protected, but also what is free for all to use.” . . . In particular, the Court has long held that “[p]henomena of nature, though just discovered, mental processes, and abstract intellectual concepts are not patentable” . . . since allowing individuals to patent these fundamental principles would “wholly pre-empt” the public’s access to the “basic tools of scientific and technological work.” . . .

- Second, . . . the Court has stated that “[t]ransformation and reduction of an article to a different state or thing is the clue to the patentability of a process claim that does not include particular machines.” . . . Application of this test, the so-called “machine-or-transformation test,” has thus repeatedly helped the Court to determine what is “a patentable ‘process.’”
- Third, while the machine-or-transformation test has always been a “useful and important clue,” it has never been the “sole test” for determining patentability. . . . The machine-or-transformation test is thus an important example of how a court can determine patentability . . . , but the Federal Circuit erred in this case by treating it as the exclusive test.
- Fourth, although the machine-or-transformation test is not the only test for patentability, this by no means indicates that anything which produces a “‘useful, concrete, and tangible result,’” . . . is patentable.

For the majority, the nature of innovation was in flux, and the patent system should move with it (p. 8):

It is true that patents for inventions that did not satisfy the machine-or-transformation test were rarely granted in earlier eras, especially in the Industrial Age. . . . But times change. Technology and other innovations progress in unexpected ways.

and (p. 9):

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. . . . the machine-or-transformation test would create uncertainty as to the patentability of software, advanced diagnostic medicine techniques, and inventions based on linear programming, data compression, and the manipulation of digital signals.

Excessive Protection an Impediment to Innovation

Along with an extensive review of patent policy, the concurring opinion covered economic arguments (pp. 41–44, footnotes and internal citations omitted, not set off as a list in the original):

- Innovators often capture advantages from new business methods notwithstanding the risk of others copying their innovation. Some business methods occur in secret and therefore can be protected with trade secrecy.
- And for those methods that occur in public, firms that innovate often capture long-term benefits from doing so, thanks to various first mover advantages, including lockins, branding, and networking effects.
- Business innovation, moreover, generally does not entail the same kinds of risk as does more traditional, technological innovation. It generally does not require the same “enormous costs in terms of time, research, and development,” . . . , and thus does not require the same kind of “compensation to [innovators] for their labor, toil, and expense,” . . .

Excessive Protection an Impediment to Innovation

- Nor, in many cases, would patents on business methods promote progress by encouraging “public disclosure.” . . . Many business methods are practiced in public, and therefore a patent does not necessarily encourage the dissemination of anything not already known. And for the methods practiced in private, the benefits of disclosure may be small: Many such methods . . . do not generate any efficiency but only provide a means for competitors to one-up each other in a battle for pieces of the pie. . . .
- In any event, even if patents on business methods were useful for encouraging innovation and disclosure, it would still be questionable whether they would, on balance, facilitate or impede the progress of American business. For even when patents encourage innovation and disclosure, “too much patent protection can impede rather than ‘promote the Progress of . . . useful Arts.’” . . .

Excessive Protection an Impediment to Innovation

- The primary concern is that patents on business methods may prohibit a wide swath of legitimate competition and innovation. . . . Innovation in business methods is often a sequential and complementary process in which imitation may be a “spur to innovation” and patents may “become an impediment.” . . .

Divergence on Fundamentals

- The majority settled the issue before it without addressing the broad question of the patentability of business methods (p. 13):

Rather than adopting categorical rules that might have wide-ranging and unforeseen impacts, the Court resolves this case narrowly on the basis of this Court's [previous] decisions . . . , which show that petitioners' claims are not patentable processes because they are attempts to patent abstract ideas.

- The four concurring justices would have embraced the opportunity to settle the broader question presented by the appeal (p. 2):

The wiser course would have been to hold that petitioners' method is not a "process" because it describes only a general method of engaging in business transactions—and business methods are not patentable.

- The question of the patentability of business methods remains open.