



## Patentability of Internet Business Method: A Malaysian Perspective

Nor Sa'adah Abd Rahman, Siti Aisah Sahlan, Salmiah Mohd Amin

Associate Professor, Department of Business Administration, Management Faculty of Universiti Teknologi Malaysia

Department of Business Administration, Management Faculty of Universiti Teknologi Malaysia

Associate Professor, Department of Business Administration, Management Faculty of Universiti Teknologi Malaysia

### ABSTRACT

Currently, conducting business over the electronic network or Internet is very advantageous and has become a global business phenomenon. The increasing number of firms using Internet business methods has raised intense competition among firms. The main challenge faced by firms is that it is easy for other parties to imitate an Internet business method. In order to protect an Internet business method from imitation, business firms realized that there is a need to protect business methods using Patent Law. However, attempts to patent Internet business method have raised controversial patentability issues and dealing with copyright law. Therefore, this paper attempts to examine the issue of Internet business method and its patentability from the perspective of Patent Law in Malaysia. This paper concluded that Internet business method patentability is very dependent on the interpretation of the Patent Law of different national governments.

### *Indexing Term/Keywords:*

Business method; Internet business; Internet business patent; Patent Law.

### **Academic Discipline And Sub-Disciplines**

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### **SUBJECT CLASSIFICATION**

Patent law

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## 1. INTRODUCTION

The West's Encyclopedia of American Law (1997) defines Internet business method patents as a class of patents which disclose and claim new methods of doing business. This involves new types of e-commerce, insurance, banking, and tax compliance.

Internet business methods were introduced after Internet use widened in the 1970's. The Internet is not only used as a medium of communication to share, receive and transmit information, but is also applicable to the business world and this is known as e-business or e-commerce (Djahangiri and Hackl, 2008). This has contributed to the rapid development of electronic business where the Internet has served as the medium through which businesses have converted from traditional methods to the use of e-commerce. E-commerce is regarded as a business method where sales or the purchase of goods or services between various organizations are implemented using computer-mediated network (OECD, 2005). Examples include Internet advertising schemes and online ordering processes.

The advantages to businessmen who use the Internet as a medium to run their business include low business cost, use of fewer human resources, and convenience for both businessmen and customers. These advantages have attracted many business firms to use the Internet as a medium to run their business. However, the increase of business firms using Internet business methods has caused intense competition among these firms and subsequently they have to struggle to sustain their competitiveness.

The main challenge faced by business firms is that Internet business method can be easily imitated by other companies. Therefore, to sustain their competitive edge, they seek to maximize the security of their business method by applying for Patent Law protection. However, the desire to protect Internet business method using Patent Law has raised controversial issues and brought about an interesting debate on the question of its patentable requirements of the Patent Law (Davis, 2000). Thus, this paper attempts to explore the issues of Internet business method from the perspective of Patent Law in Malaysia.

## 2. BACKGROUND

With the emergence of the Internet, e-commerce is now widely used. Business is evolving from the use of traditional methods to Internet business methods for several reasons. Firstly is the cost. In the traditional business methods, businessmen need to invest a lot of money to cover high costs such as monthly lease payments, utilities, and staff salaries. In addition, they also need to spend money on advertising to attract potential customers through brochures, fliers, newspapers and catalogues (Jackson and Harris, 2003). In contrast with traditional business methods, e-commerce can be carried out at a lower business cost. For example, the businessmen only need to build their business site and to market their goods by advertising their products through the site at a very low cost.

Secondly, there are also differences between traditional business methods and Internet business methods in terms of businessmen and customer convenience. In the traditional way of doing business, customers needed to go physically to the stores and spend time searching for things that they want to buy at every rack in the shop. Contrarily, Internet business methods are very convenient for businessmen and customers (Mirzaei et. al., 2012). Customers will not have to worry about bad weather and finding a parking place. Customers only have to click the online menu and choose the goods that they want to purchase by transacting the required amount of money through the Internet banking system. When the payment is confirmed by the businessman, the goods are delivered to the customer. In addition, the use of the Internet as a medium for doing business also allows businesses to operate 24 hours a day. This flexibility enables the organizational personnel to run their business wherever they are (Djahangiri and Hackl, 2008).



### 3. LITERATURE REVIEW

#### 3.1 Competition among business firm

Internet business method has created new opportunities for business firms to earn high profits. Through this new method, business firms will be able to increase their sales by attracting more customers beyond limited regions in a very short period. Increasing use of the same Internet business methods among business firms has created an intense business competition among them. The problem arises where the Internet business method can easily be imitated by other business firms. In order to protect their business method from being imitated, some business firms had taken action by patenting their method under the Patent Law (Davis, 2002). Examples of firms that have earned patent protection for Internet business methods are *Amazon.com's* 1-Click ordering (Tillet, 2001), *Priceline.com's* Internet based "reverse auction" online purchasing model (Parker, 2001) and *Cybergold's* reward-per-view advertising method (Reordan, 1999 in Grusd, 1999).

Patent protection enables business firms to gain the exclusive right to prevent others from exploiting or infringing their Internet business method without their permission. The patent protection will cover a period of 17 years (U.S Trademark and Patent Office (USTPO), 2010). Furthermore, Patent Law also permits the patent owner to sue infringers for damages and obtain injunctions to stop them from infringing upon their Internet business method. An example of an Internet business method patent infringement case is *Amazon v. Barnes & Noble*<sup>1</sup>. In this case, Barnes & Noble infringed Amazon's "1-Click shopping" patent. Amazon sued and won the case. Another example related to Internet business method patent is *MercExchange v. EBay*<sup>2</sup>. In this case, MercExchange sued Ebay for infringing their patent. It was held that *Ebay* had infringed *MercExchange* patent (USTPO, 2010).

However, this phenomenon has raised the question of whether a business method can or cannot be patented under Patent Law. Therefore, this paper attempts to investigate whether a business method can or cannot be patented under Patent Law.

#### 3.2 Issues of patenting internet business method

One important issue of patenting an Internet business method is in the development of software inventions related to methods of doing business (Silverman, 2000). Internet business methods are closely related with computer programs. Initially in Malaysia, computer programs were protected by the Copyright Act 1987 in section 3 as part of literary. Section 7(2) of Malaysian Copyright Act 1987 covers the expression of an idea, but not the idea itself, meaning that the idea must be expressed whether in written form, recorded or reduced to a material form. Hence, computer software is eligible for copyright protection only when the work is originally expressed in material form (Jayaram, 1993). It also excludes procedures, methods of operation or mathematical concepts. Thus, the underside of the invention, things like procedures and methods remained unprotected. In addition, copyright protects the owner against parties that infringed upon his work. However, it does not provide protection against people who independently created the invention (Jayaram, 1993). As a consequence, firms that have devised a novel Internet business method find it difficult to protect the method from being copied by other parties. Therefore, they are looking for another option that could help them to protect their Internet business method. Hence, some firms seek protection under Patent Law by patenting their Internet business method.

<sup>1</sup> 239 F.3d 1343, 1360 (Fed Cir 2001).

<sup>2</sup> L.L.C., 547 U.S. 388 (2006)



In the United States, prior to 1981, under the provision of United States Patent Act 1976, Internet business methods are listed as excluded from patentability although patents have been granted for certain types of financial and mechanical business methods for over two hundred years (White Paper, USPTO, 2001). In *Gottschalk v. Benson*<sup>3</sup> and *Parker v. Flook*<sup>4</sup> cases, the Supreme Court decided that software, which is a key component to many business method patents, was too similar to mathematics and laws of nature to be entitled to patent protection.

However, the Supreme Court changed its direction in 1981 in the case of *Diamond v. Diehr*<sup>5</sup>. In this case, the patent application was for a process of moulding uncured synthetic rubber into cured precision products. The process utilized a programmed digital computer to perform calculations. The Supreme Court ruled that the process of moulding uncured synthetic rubber into cured precision products was a patentable subject matter. Although the invention in this case utilized computer software, it was not excluded from fulfilling the requirement of patentability. Since then, the U.S courts have broadened the scope of protection available under Section 101 of the United States Patents Act 1976 to software-related inventions which stated that patents will be granted for '... any new and useful process, machine, manufacturer, or composition of matter, or any new and useful improvement thereof...'.<sup>6</sup>

In Europe, three basic criteria under the European Patent Convention (EPC) must be fulfilled in order for inventions in all fields of technology to qualify for a patent: the invention must be novel, involve an inventive step and be compatible with industrial applications<sup>6</sup>.

Although there is no specific definition for the term "invention" under EPC, there is still a list of subjects that are not considered eligible for patent under Article 52(2). Article 52(2) (c) of EPC clearly states that methods of doing business are excluded from patent protection. In addition, Article 52(3) of the EPC excludes the patentability of the subject matter or activities referred to only to the extent to which a European patent application relates to such subject matter or activities 'as such'.

For example, patentability of an invention in the United Kingdom can be referred to in section 1(1) under the United Kingdom Patent Act 1977. This provision states that in order to qualify as a patent, an invention had to satisfy four conditions which are that the invention is new, involves an inventive step, is capable of industrial application and the grant of a patent for it is not excluded by subsections (2) and (3) or section 4A.

Section (2) of the United Kingdom Patent Act 1977 provides a list subjects that are not considered an invention. Section (2) (c) of the United Kingdom Patent Act 1977 clearly states that methods of doing business are excluded from patentability. However, the provision limits the extent of exclusion under section 5 of the United Kingdom Patent Act 1987 where the Secretary of State may by order vary the provisions of subsection (2) above for the purpose of maintaining these provisions in conformity with developments in science and technology.

One example of a case that related to a business method is *Merrill Lynch Inc's Application*<sup>7</sup>. In this case, the invention is relates to a computerized system to be used for trading in stocks and shares. The system functioned by retrieving and storing current bids and prices and executing customers buys or sells orders. The United Kingdom Court of Appeal held that no patent could be granted for this invention because it was a method of doing business. However, the judgment implies that only computer programs as such are not patentable. The fact is that the program is only a part of the invention

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<sup>3</sup> 409 U.S. 63 (1972)

<sup>4</sup> 437 U.S. 584 (1978)

<sup>5</sup> 450 US 175(1981)

<sup>6</sup> Article 52(1) of European Patent Convention

<sup>7</sup> [1989] RPC 561



and the application should be viewed as a whole. Thereby, if the invention produces a new result in the form of a technical contribution to the prior art, patent protection may be granted for the invention.

Thus, in certain circumstances, Internet business methods are deemed eligible to obtain European patent protection. In order for an Internet business method to be patentable under EPC, the Internet business method should be able to either solve a “technical problem” or come out with a “technical solution” (Davis, 2002). For instance, the problem of efficiently managing a queue of waiting customers, which is regarded as a non-technical problem, is solved in a technical way by developing a system that determines who is served at which counter.

Therefore, in Europe, an Internet business patent may be eligible for patent protection under the EPC if the Internet business method not only fulfills all the patentability requirements which include novelty, an inventive step and industrial applicability, the method must also solve “technical problems” or demonstrate ‘technical effect’.

However, Patent Law varies by region particularly in regard to patentability requirements and non-patentable inventions. Thus, a detailed discussion will be made in the next section on patenting Internet business method in Malaysia.

In Malaysia, Section 12 of Malaysian Patent Act 1983 protects any invention which may be or may relate to a product or process. Further, the invention must fulfill the requirement of patentability in order to obtain patent protection. Section 11 of the Patents Act 1983 provides that an invention is patentable if it is new (novel), involves an inventive step and is industrially applicable.

However, not all inventions can be patented as stated under section 13(i) of the Patents Act 1983. According to a specific listing of non-patented inventions contained in the Malaysian Patent Act 1983, there is specific provision where business methods are excluded from patentability where the words ‘methods for doing business’ are clearly mentioned under section 13(1)(c). The question here is whether this also includes Internet business methods? Thus, this paper attempts to examine whether Internet business methods is patentable.

### **3.3 Issues on internet business method patentability**

The patenting of an Internet business method raises several important issues. In Europe, Internet business methods are not viewed in terms of the degree of inventiveness or technical effect. It is also very difficult to determine the originality or novelty of the Internet business method. In the U.S, issues relating to the novelty of an Internet business method are raised because in some cases, Internet business methods were granted patents despite not meeting the requirements of novelty and non-obviousness. Some people were critical of the fact that Internet business methods are not considered novel under Patent Law. The fact that it was used in cyberspace does not mean that they are different from traditional business methods (Davies, 1999). If traditional business methods were not protected under Patent Law, why should Internet business methods receive special treatment?

For this reason, the USPTO issued a “White Paper on Automated Financial or Management Data Processing Methods (Business Method) in 2000. In addition, a trilateral comparative study of a computer implemented business method which involved USPTO, European Patent Office (EPO) and Japan Patent Office (JPO) was conducted. This study was conducted to facilitate consistent search and examination practices across the offices.

From the trilateral comparative study conducted, a consensus has been reached regarding computer implemented business methods. Computer implemented business methods are only eligible for patent if they have technical aspects.



However, a known business method which is automated using well known automation techniques is not patentable because it is not new.

#### 4. CONCLUSION

Based on the discussion above, it is clear that computer programs are expressly stated as protected work by the Malaysian Copyright Act 1987. It is found that the Copyright Act 1987 only protects the expression of work and not the expression of idea<sup>8</sup>. In addition, it also excludes procedures, operational methods or mathematical concepts<sup>9</sup>. Hence, the content of computer programs which are related to methods of doing business remains unprotected (Jayaram, 1993). On the other hand, in Malaysian Patent Act 1983, business method is clearly stated as not patentable. Although it is not obviously mentioned Internet business method as not patentable, Internet business method is not deemed as invention because it is not in the field of technology (Ida Madieha, 2004). In some countries like U.S, U.K and Europe, computer programs related to business methods can be protected under Patent Law

Thus, it can be concluded that not all countries allow Internet business methods to be patented due to the differences in laws among countries on the question of what is patentable and non-patentable (Davis, 2002). The decision whether an Internet business method is patentable or not depends on the interpretation of the Patent Law of different national governments.

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<sup>8</sup> Malaysian Copyright Act 1987, s 7(2)

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