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## LEGAL ARRANGEMENTS – PATENTABLE?

### *Introduction*

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The Full Court of the Federal Court of Australia recently handed down a decision in relation to the validity of a patent which taught a method of protecting assets through legal arrangements.

Innovation Patent 2003100074, entitled “Asset Protection Method” (the patent), involved a series of transactions, whereby an asset was shielded against creditors. Claim 1 of the patent was in these terms:

*‘1. an asset protection method for protecting an asset owned by an owner, the method comprising the steps of:*

- (a) establishing a trust having a trustee,*
- (b) the owner making a gift of a sum of money to the trust,*
- (c) the trustee making a loan of said sum of money from the trust to the owner, and*
- (d) the trustee securing the loan by taking a charge for said sum of money over the asset.’*

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### *The Decisions*

Although there have been three unanimous determinations against the patentability of the alleged invention, they have been for essentially different reasons.

All decision makers referred to the test of the High Court in *National Research Development Corporation v Commissioner of Patents* (1959) 102 CLR 252 (NRDC). In NRDC the High Court considered a method of killing weeds in crops by applying chemicals, not formerly known to be useful for such a of purpose. At 277 the High Court stated:

*‘... the method the subject of the relevant claims has as its end result an artificial effect falling squarely within the true concept of what must be produced by a process if it is to be held patentable ... It is a “product” because it consists in an artificially created state of affairs, discernible by observing over a period the growth of weeds and crops respectively on sown land on which the method has been put into practice. And the significance of the product is economic; for it provides a remarkable advantage ... for one of the most elemental activities by which man has served his material needs, the cultivation of the soil for the production of its fruits.’ (Emphasis mine)*

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*The hearing before the Deputy Commissioner of Patents*<sup>1</sup>

The Deputy Commissioner noted that the patent did not relate to the protection of the asset in a physical sense:

*One of the notable aspects of this invention is that it does not entail the application of any 'natural' law. The present invention resides in the 'discovery' that the effects of certain laws can be avoided by the pre-emptive taking of appropriate steps in accordance with other laws... The invention does not relate to any discovery or utilisation of any natural law, but resides in the domain of legal law. The effect of this patent is to reserve to the patentee the exclusive right to use certain laws of Australia in a particular way.*

After determining that the patent was able to resist three alleged anticipations of the invention, the Deputy Commissioner determined that the invention was not a manner of manufacture, within the meaning of s 6 of the *Statute of Monopolies*. The Deputy Commissioner referred to NRDC and the 'right question' to be asked, in relation to a manner of manufacture:

*"Is this a proper subject of letters patent according to the principles which have been developed for the application of s. 6 of the Statute of Monopolies?"*<sup>2</sup>

The Deputy Commissioner determined that invention was not "*an artificially created state of affairs*", because law as such was already an artificial state of affairs:

*The claims of the present Innovation Patent do not involve any discovery of a law of nature, or involve the application of technology in some form or other to perform the process. The discovery leading to the claimed method relates to the laws of Australia. The invention does not result in an artificially created state of affairs - the state of affairs was already present in the laws of Australia. The claimed invention is therefore not for a manner of manufacture within the meaning of s.6 of the Statute of Monopolies...*<sup>3</sup>

Further underpinning his decision, the Deputy Commissioner said that it was a fundamental element of the law, that it was assumed to be 'known'. Accordingly, nothing could be taken to be

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<sup>1</sup> \*Stephen John Grant [2004] APO 11 (26 May 2004).

<sup>2</sup> "It is therefore a mistake, and a mistake likely to lead to an incorrect conclusion, to treat the question whether a given process or product is within the definition as if that question could be restated in the form: "Is this a manner (or kind) of manufacture?" It is a mistake which tends to limit one's thinking by reference to the idea of making tangible goods by hand or by machine, because "manufacture" as a word of everyday speech generally conveys that idea. The right question is: "Is this a proper subject of letters patent according to the principles which have been developed for the application of s. 6 of the Statute of Monopolies?" NRDC at [14].

<sup>3</sup> Stephen John Grant [2004] APO 11 (26 May 2004) at [28].

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‘discovered’ because of this assumption. Finally, it was considered inappropriate, for the Commissioner to grant monopolies over areas of the law:

*Additionally, laws are enacted by Parliament for the governance of the population (unless there is express parliamentary intent to the contrary.) Clearly Parliament and society expects all citizens to obey the full range of the law. I do not believe that it is open (or proper) for the Commissioner of Patents to grant monopoly rights over certain aspects of Australian law. The law is for the populace at large; it is not for the use of one individual to the exclusion of all others who desire to follow the law.*

*Federal Court – Branson J*<sup>4</sup>

On appeal to the Federal Court, Branson J noted that the appellant had argued before the Deputy Commissioner, that the invention was entitled to be patented because it had economic utility and created ‘*an artificial state of affairs*’, within the meaning of NRDC.

Her Honour also observed that the Deputy Commissioner had:

- noted that the concept of *manner of manufacture* had consistently involved either the discovery of laws of nature or the application of technology based on the laws of nature;<sup>5</sup>
- characterised the invention as being, by contrast, ‘*a discovery in relation to the laws of Australia, useful in the affairs of the populace*’;<sup>6</sup>
- accepted that the invention had economic utility, because many professional advisers were charged with looking after their clients’ assets, by making full use of the law.<sup>7</sup>

The Deputy Commissioner made brief reference to the purpose of the *Statute of Monopolies*<sup>8</sup>. Her Honour however, considered the rationale behind patents in more detail.<sup>9</sup>

Branson J considered that the rationale of patents, as reflected in s 6 of the Statute of Monopolies:

*‘was intended to allow the grant of monopolies limited in time where the public benefit derived from the grant of the monopoly might be expected to outweigh the public cost of the resultant interference with free trade. The same principle underlies modern legislation authorising the grant of patents.’*<sup>10</sup>

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<sup>4</sup> *Grant v Commissioner of Patents* [2005] FCA 1100 (Branson J, 12 August 2005).

<sup>5</sup> Branson J’s reasons at [7].

<sup>6</sup> *Ibid.*

<sup>7</sup> *Ibid* at [8].

<sup>8</sup> The Deputy Commissioner’s reasons at [22].

<sup>9</sup> Branson J’s reasons [9] to [20].

<sup>10</sup> *Ibid* at [13].

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In support of this rationale, her Honour referred to the decision of Kirby J in *Advanced Building Systems Pty Limited v Ramset Fasteners (Aust) Pty Limited* (1998) 194 CLR 171,<sup>11</sup> where at 193-194 Kirby J observed:

*'Legislation for the grant of patents necessarily involves striking a balance between competing, and sometimes conflicting, policy objectives. The Industrial Property Advisory Committee in its 1984 report on patents expressed well the general objective to be attained:*

*"Patents are intended to stimulate ... innovation by offering the possibility of greater profits than could have been obtained if open competition existed. But the benefits gained from innovation fostered by the existence of the patent system must be balanced against the costs to society caused by the restrictions which patents place upon the use of the inventions to which they relate. For while the purpose of the patent system is to provide an incentive to innovation, patents also create entry barriers which prevent or retard the diffusion of innovation by imitation; that is to say, a patent confers a degree of monopoly power which has inherent anti-competitive effects. It has both social benefits and social costs."*

*Exactly where the balance lies between the benefits and costs is determined by the legislature in the terms of the Act'*

Her Honour concluded that the imposition upon the right to free trade, which is inherent in the grant of the statutory of monopolies under the patent system, must be counter balanced with a public benefit. Relevantly, her Honour stated at [20]:

*The principle which has been developed for the application of s 6 of the Statute of Monopolies that seems to me to be critical in this case is the principle that an invention should only enjoy the protection of a patent if the social cost of the resulting restrictions upon the use of the invention is counterbalanced by resulting social benefits. This principle is derived from the theoretical justification for the grant of a patent; that is, the assumed value of inventive ingenuity to the economy of the country. The monopoly granted by a patent to an inventor is assumed to serve the public interest both by rewarding, and thus encouraging, inventive ingenuity and by ensuring the disclosure to the public of a new article or process. As the High Court observed in NRDC at 275:*

*'a process, to fall within the limits of patentability which the context of the Statute of Monopolies has supplied, must be one that offers some advantage which is material, in the sense that the process belongs to a useful art as distinct from a fine art -- that its value to the country is in the field of economic endeavour.'*

Branson J did not agree with the Deputy Commissioner's acceptance that the subject matter of the patent had economic utility. Her Honour considered that the utility was not to the country as a whole, but rather to those whose assets were protected and 'possibly their advisers'. Her Honour

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<sup>11</sup> Ibid.

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concluded that the absence of a demonstrated public benefit, made it improper subject matter for a patent. Relevantly, her Honour stated:

*'The Deputy Commissioner did not think that there could be any argument about the invention the subject of the Patent being of economic utility because of the number of financial advisers in society charged with looking after their client's assets. This was, in my view, to adopt the wrong approach to the question of whether the method has 'value to the country in the field of economic endeavour' within the meaning of the above excerpt from NRDC. The economic utility identified by the Deputy Commissioner is not a utility of value to the country; it is a utility of value only to those whose assets are ultimately protected – and possibly to their professional advisers. The performance of the invention will not add to the economic wealth of Australia or otherwise benefit Australian society as a whole. For this reason, in my view, the invention the subject of the Patent is not a proper subject of letters patent according to the principles which have been developed for the application of s 6 of the Statute of Monopolies.'*<sup>12</sup>

Her Honour considered that it was in the public's interest for people to pay their debts and that the subject matter of the patent was really *"a method by which the owner may be insulated from the operation of laws intended to serve the public interest."*<sup>13</sup>

Accordingly, Branson J dismissed the appeal with costs.

*The Full Court*<sup>14</sup>

The Full Court also dismissed the appeal with costs, on the basis that the subject matter was not a manner of manufacture.

Their Honours noted from decided cases a thread common to the recipients of patents. The thread was that the invention had a useful practical application. In this regard, the Full Court observed the competing arguments in NRDC in relation to the term 'manufacture' and concluded that *'[t]he concept was not limited to the idea of making tangible goods by hand or machine (the everyday meaning of 'manufacture')*.<sup>15</sup> Their Honours stated:

*'Relevantly for present purposes the High Court at 264 noted:*

*"There may indeed be a discovery without invention – either because the discovery is of some piece of abstract information without any suggestion of a practical*

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<sup>12</sup> Ibid at [21].

<sup>13</sup> Ibid at [22].

<sup>14</sup> *Grant v Commissioner of Patents* [2006] FCAFC 120 (Heerey, Kiefel and Bennett JJ, 18 July 2006).

<sup>15</sup> Ibid at [10].

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application of it to a useful end, or because its application lies outside the realm of "manufacture".<sup>16</sup>

From *NRDC* their Honours summarised a number of indicia of a 'manner of manufacture'.<sup>17</sup> These included the following observations:

- *'The concept was not limited to the idea of making tangible goods by hand or machine (the everyday meaning of 'manufacture') (NRDC at 269);*
- *The question as to whether it was enough that a process produced a 'useful result' or whether it was necessary that 'some physical thing is either brought into existence or so affected as the better to serve man's purposes' (NRDC at 270), was unresolved;*
- *The effect of the method is a 'product' because it consists in 'an artificially created state of affairs' (explained in the context of the growth of weeds and crops on sown land on which a method had been put into practice) (NRDC at 277).*

In considering the history of patentable inventions, their Honours noted that *[b]usiness, commercial and financial schemes as such have never been considered patentable.*<sup>18</sup> The Full Court concluded, that there was a physical manifestation produced in relation to all of the inventions considered, a feature lacking from the alleged invention in question. Relevantly they stated:

*'These can all be regarded as physical effects. By contrast, the alleged invention is a mere scheme, an abstract idea, mere intellectual information, which has never been held to be patentable, despite the existence of such schemes over many years of the development of the principles that apply to manner of manufacture. There is no physical consequence at all.'*<sup>19</sup>

This 'lack of physicality' was a separate question from whether *'the alleged invention lies in a realm of human endeavour outside those in which patents may be granted.'*<sup>20</sup>

Whilst acknowledging that legal practice involved 'ingenuity and imagination', which could be considered legal discoveries, the court said that these were not inventions because they lacked *'an industrial or commercial or trading character.'*<sup>21</sup> Relevantly:

*'The interpretation and application of the law would not be considered as having, in the words of NRDC, an industrial or commercial or trading character, although without doubt it is an area of economic importance (as are the fine arts). The practice of the law requires, amongst other things, ingenuity and imagination which may produce new kinds of transactions or litigation arguments*

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<sup>16</sup> Ibid at [11].

<sup>17</sup> Ibid at [12].

<sup>18</sup> Ibid at [14].

<sup>19</sup> Ibid at [32].

<sup>20</sup> Ibid at [33].

<sup>21</sup> Ibid at [34] referring to *NRDC* at [22].

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*which could well warrant the description of discoveries. But they are not inventions. Legal advices, schemes, arguments and the like are not a manner of manufacture.*<sup>22</sup>

*Related matters*

The Full Court queried the decision of the Deputy Commissioner with respect to a requirement for science and technology, in circumstances where the High Court emphasized the unpredictability of human nature. Their Honours further observed that Deputy Commissioner had in another matter:

*'expressed the opinion that the concept of "an artificially created state of affairs" discussed by the High Court in NRDC required 'the application of science or technology in some material manner'.<sup>23</sup>*

Finally, their Honours considered the question as to whether there was a public benefit, was not a relevant consideration. Their Honours said:

*'It is not relevant, in our view, that some may think that a method or product will not advance the public interest. Once a product or process has been patented, its use is subject to the laws of the land, such as (to take but a few examples) those concerned with environmental protection, pharmaceutical product approval and occupational health and safety.'*<sup>24</sup>

*Comment*

Notwithstanding my genuine admiration for the judges constituting the Full Court in this matter, I agree with the approach of Branson J. My first reaction was to disagree with the concept that there needed to be an apparent public benefit. Conversations with several peers, evinced their agreement, that a judge should not have to consider whether an alleged invention was worthy of a patent grant.

I have re-considered the reasons, and believe this is not the line of reasoning intended by her Honour, in speaking of the public benefit. In my view, this consideration by the court, does not involve an appraisal of the 'worthiness' of a particular invention. That is, the court is not and should not be placed in a position to judge inventions vertically, in terms of which are 'better'. For example, having to determine whether a vaccine which cures a form of cancer, is more deserving of a patent, than a new form of adhesive. That is not practical, for the reasons anticipated by the Full Court.

In my view however, the scrutiny involves a horizontal consideration, applicable to all patents. A threshold based on whether there is an overall public benefit. Most patents will pass the threshold. They will provide something new to the public with little or no detriment. It is irrelevant if only a

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<sup>22</sup> Ibid.

<sup>23</sup> Ibid at [37], referring to the decision in *Re Peter Szabo and Associates Pty Ltd* (2006) 66 IPR 370 at [36].

<sup>24</sup> Ibid at [44].

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small group benefit in that case because there is no apparent detriment. In this case, her Honour considered that the public benefit of having debts paid, outweighed the benefit to the few, who could protect their assets through the arrangement.

Where does this supposed obligation on the courts arise?

In my view, the Full Court alluded to it. Their Honours considered that their role was not to determine the balance between the competing interests of the benefits and detriments to the public. Relevantly their Honours stated:

*'Nor is the Court in a position to determine the balance between social cost and public benefit. Parliament has already made that judgment, as its predecessor did in 1623, by rewarding innovation with time-limited monopoly.'*<sup>25</sup>

I agree. It is government, who considers the degree to which the patent regime stimulates innovation, thereby benefiting the public.<sup>26</sup> However, as the Full Court has identified that unchanged position from 1623, so too the position of the court remains unchanged in relation to abuses of the system.

Section 6 of the *Statute of Monopolies*, provided an exception to the provisions of s 1 of the Statute, which essentially prohibited monopolies. Section 6 stated:

6 (a ). Provided also, that any declaration before mentioned shall not extend to any letters patents (b) and grants of privilege for the term of fourteen years or under, hereafter to be made, of the sole working or making of any manner of new manufactures within this realm (c ) to the true and first inventor (d ) and inventors of such manufactures, which others at the time of making such letters

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<sup>25</sup> Ibid at [45].

<sup>26</sup> Australian Government, *Introduction of the Innovation Patent* (2006) IP Australia <[http://www.ipaustralia.gov.au/patents/what\\_innovation\\_review.shtml](http://www.ipaustralia.gov.au/patents/what_innovation_review.shtml)> at 17 May 2006:

The Government agrees with ACIP that a patent system for lower level inventions is in Australia's national interest. Overseas experience suggests that, in contrast to the predominantly foreign use of standard patent systems, locally owned SMEs are the major users of lower level patent systems. By providing an exclusive right for lower level inventions, the innovation patent should encourage Australian businesses, particularly SMEs, to develop their incremental inventions and market them in Australia. Increased use of the system will also increase the amount of technological information available to businesses, as the invention covered by each application is published. Moreover, modifying the petty patent system so that SMEs find it cheaper and easier to use should not add to the regulatory burden on third parties above what is already imposed by the present patent system, including the petty patent system that it will replace. Indeed, the proposed changes will decrease the compliance burden on the direct users of the system. The Government notes that at least 48 other industrialised countries including Germany and Japan have already introduced such second tier systems over recent years and that these overseas systems provide better access to industrial property rights for local industry and help to foster indigenous invention and innovative activities.



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patents and grants shall not use (e), **so as also they be not contrary to the law nor mischievous to the state by raising prices of commodities at home, or hurt of trade, or generally inconvenient** (f): the same fourteen years to be accounted from the date of the first letters patents or grant of such privilege hereafter to be made, but that the same shall be of such force as they should be if this act had never been made, and of none other (g).<sup>27</sup> (Emphasis mine)

Not commonly referred to in the context of s 6 of the *Statute of Monopolies*, is the exception to the exception. Patents could be granted, provided '*they be not contrary to the law nor mischievous to the state by raising prices of commodities at home, or hurt of trade, or generally inconvenient*'.

Parliament having done its job implementing law and creating a regime it considered should exist, determined that it was beneficial to the public, provided there were some limitations upon those rights. That is that the patents were not:

- contrary to the law;
- mischievous to the state by raising prices of commodities at home;
- 'hurt of trade'; or
- generally inconvenient.

One would think that the task to police these matters was with the judiciary, the indicators having been given by parliament. Applying this rationale to the *Grant* case, Branson J has simply, in my opinion, complied with the requirement in the *Patents Act*,<sup>28</sup> in determining that the alleged invention was not a manner or manufacture within s 6 of the statute of Monopolies, because in essence the alleged invention was 'hurt of trade' and/or 'generally inconvenient'.

It is interesting to note, the Full Court made it clear, that the asset protection scheme was "*not unpatentable*", simply because it was a business method.<sup>29</sup> It was also made clear that the question as to whether the method was '*properly the subject of letters patent*', was determined on principles applicable to a manner of manufacture, regardless of the area of the activity in which the method was used.<sup>30</sup>

Arguably, the Full Court left open the issue, that such an arrangement might be patentable. Relevantly, their Honours said:

*'It has long been accepted that "intellectual information", a mathematical algorithm, mere working directions and a scheme without effect are not patentable. This claim is "intellectual information", mere working directions and a scheme. It is necessary that there be some "useful product", some*

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<sup>27</sup>< [http://ipmall.info/hosted\\_resources/lipa/patents/English\\_Statute1623.pdf](http://ipmall.info/hosted_resources/lipa/patents/English_Statute1623.pdf)> at 14 August 2006.

<sup>28</sup> S 18(1A)(a).

<sup>29</sup> The Full Court's reasons at [47].

<sup>30</sup> Ibid.

*physical phenomenon or effect resulting from the working of a method for it to be properly the subject of letters patent. That is missing in this case.*<sup>31</sup>

The question is whether the claims or the method itself are able to be configured in such a way to produce a 'physical phenomenon'. Perhaps a process by which the arrangements are effected through some computer generated documents or on-line contractual terms, might be viewed as a physical manifestation of the alleged invention.

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Barrister

17 August 2006

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<sup>31</sup> Ibid.