

Global eCommerce

law and business report

U.S. Export Control Considerations in an E-Commerce World

BY DENNIS J. GALLITANO (PIPER RUDNICK)

Where commercial activities have the potential to damage U.S. foreign relations or national security, policymakers have enacted export controls to prohibit such activity. Export controls are applicable equally to export activities that use electronic commerce means, such as B2B exchanges, as they are to traditional export mediums. In addition, use of electronic commerce to import and export goods raises some unique export considerations.

This article will first provide an overview of U.S. export controls. It will then analyze the interaction of these controls with electronic commerce – placing special attention on their impact on B2B exchanges. The article will next suggest prescriptive measures that will assist companies engaged in e-commerce in allocating the risks and obligations created by export controls.

U.S. Export Controls – General Overview

Export control policy involves a balancing of concerns – promoting trade with foreign markets versus allowing individuals, organizations or

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EU Proposes More Limited Protection for Software and Business Methods Patents Than U.S.

BY JAMES GATTO
(MINTZ LEVIN COHN FERRIS GLOVSKY AND POPEO, PC)

The European Commission (EC) has recently proposed limiting the types of software and business method patents available in Europe. The EC proposal, if adopted, would further widen the gap between what is patentable in Europe versus what is patentable in the United States (and some other countries). It will also increase the risk that patent applications prepared and first filed in Europe and then later filed in the U.S., may not fully benefit from the additional protection available in the U.S., unless certain steps are taken at the time of filing in Europe to ensure full protection for the patent.

This article provides information about the EC proposal, its impact on the scope of protection available in Europe and certain steps to take to possibly avoid forfeiting some aspects of U.S. or European patent rights for software and business methods applications.

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Information Technology

The U.S. Homeland Security Act contains numerous provisions of interest to information technology and e-commerce companies. *Page 3*

Intellectual Property

The World Intellectual Property Organization recently approved amendments to the Patent Cooperation Treaty in a move designed to simplify the process for businesses and individuals seeking international protection of their products and innovations. *Page 5*

The European Commission has recently proposed limiting the types of software and business method patents available in Europe. *Page 1*

Litigation

German, UK, U.S. and other international cases and legislative initiatives are reviewed dealing with the extent of liability arising from on-line activities. *Page 10*

The Supreme Court of California concludes out-of-state website operator may not be sued in state where harm occurred unless it expressly targeted the state. *Page 13*

Trade

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Events Leading Up to the Proposed Legislation

The proposed legislation resulted in part from: 1) the growing concern over the current ambiguity concerning the scope of software patent protection available in Europe; 2) a study on the economic impact of the patentability of computer programs; and 3) comments from the European Union (EU) member states (Member States) and the public at large.

Current Ambiguity

Ambiguity in administrative practices and case law regarding software and business method patents has resulted, in part, from the lack of harmony in the patent protection afforded to software among Member States and the European Patent Office (EPO).¹ For example, even if the EPO grants a patent, a patent may be enforced differently (or not at all) depending on the country in which a suit is brought. This disparity in patent enforcement results from the fact that in order to enforce a granted patent one must engage in litigation in the national courts of the Member State in which the patent is challenged, and each Member State follows its own laws and jurisprudence. While countries may follow the jurisprudence of the EPO, they are not legally bound by it. The ambiguity this disparity in patent enforcement has created has been particularly acute in the areas of software and business method patents.

Economic Impact

The study on the economic impact of the EU proposal included study of the potential impact on investment, innovation, and the free movement of goods within the EU, as well as other matters. The study specifically considered international competition focusing particularly on the competition between U.S. and Japan. The study found that the patentability of software related inventions has helped the growth of software-related industries in the United States. The EC further stated that:

Patents play an important role in ensuring the protection of technical inventions in general. The basic principle underlying the patent system has proven its efficiency with respect to all kinds of inventions for which patent protection has thus far been afforded in the Member States of the European Community. Patents act as an incentive to invest the necessary time and capital and it

stimulates employment. Society at large also reaps benefits from the disclosure of the invention which brings about technological progress upon which other inventors can build.

In assessing the international competition issues, the EC acknowledged that it might be desirable to "level the playing field" regarding the conditions for protecting computer-implemented inventions between Europe and the U.S. by widening the scope of protection in Europe to bring the European patent law more in line with the U.S. patent law. In rejecting this approach, the EC ad-

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ressed some of the differences between U.S., European and Japanese patent laws. Specifically, the EC stated:

The difference between the U.S. and Europe and between the U.S. and Japan is that in Europe there has to be a technical contribution provided by the invention. In Japan there is a doctrine, which has traditionally been interpreted in a similar way: the invention has to be a highly advanced creation of technical ideas by which a law of nature is utilized. In the U.S., the invention must simply be within the technological arts and no technological contribution is needed. The mere fact that the invention uses a computer or software makes it become part of the technological arts if it also provides a "useful, concrete, and tangible result." That the U.S. does not require the invention to provide a technical contribution means that the restrictions on patenting of business methods (apart from the requirements of novelty and inventive step) are negligible.

Comments by Member States and the Public

Comments solicited by the EC from the Member States and the public at large uniformly de-

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mandated action to address the current ambiguities in administrative practices and case law. The comments were diverse, however, on what action should be taken. Some advocated harmonization by more or less preserving the *status quo*. The most dominant voice was heard from the Open Source Software Community, which expressed views as extreme as wanting to preclude patents on software, or at least severely limit the scope of software patents.

If the EC proposal is adopted, it may have an impact on pending and future filed patent applications both in Europe and the U.S.

The Proposed Directive

After considering these issues, on February 20, 2002, the EC issued a proposed Directive to harmonize the laws for patenting computer-implemented inventions.² The EC proposal recognizes the current ambiguities in administrative practices and case law and reiterates that software patents are economically beneficial to provide incentive for investment and innovation. Rather than do away with software patents, as some Open Source proponents advocated, the EC adopted a more reasoned approach based largely on the status quo and the existing scope of European patent laws. In effect, the proposal adopts a middle ground between no software protection and the expansive protection available in the U.S.

Among other things, the proposed Directive sets forth the following:

1. Member States shall ensure that a computer-implemented invention is considered to belong to a field of technology.
2. Member States shall ensure that a computer-implemented invention is patentable on the condition that it is susceptible of industrial application, is new and involves an inventive step.
3. Member States shall ensure that it is a condition of involving an inventive step that a computer-implemented invention must make a technical contribution.
4. The technical contribution shall be assessed by consideration of the difference between the scope of the patent claim considered as a whole, elements of which may comprise both technical and non-technical features, and the state of the art.

Several of these terms are defined or clarified elsewhere in the proposed Directive. For instance, a "computer-implemented invention" is defined as "any invention the performance of which involves the use of a computer, computer network or other programmable apparatus and having one or more *prima facie* novel features which are realized wholly or partly by means of a computer program or computer programs."

Under the Convention on the Grant of European Patents, computer programs and methods of doing business are not regarded as inventions. The

Comparison of Scope of U.S. and European Patent Protection if Directive is Adopted		
Aspect of Patentability	U.S.	Europe (if EC Directive is Adopted)
Requirements for patentability	Utility, novelty, non-obvious No requirement for technical contribution	Utility, novelty, Inventive Step. Inventive Step must include technical contribution
Software on disk patentable	Yes	No, since no technical effect
Software patentable as part of a computer or other apparatus?	Yes	No, unless software provides a "technical contribution" to the machine running it.
Are business methods patentable?	Yes	No, unless implemented on a computer and a technical contribution is present
Are algorithms Patentable?	Yes	No, unless implemented on a computer and a technical contribution is present

proposed Directive states, however, that this exclusion applies and is justified only to the extent an invention does not belong to a field of technology. Computer-implemented inventions and business methods are considered to belong to a field of technology, if they have a technical character.

The term “*technical contribution*” is an essential requirement of any patentable invention in Europe, including computer-implemented inventions. “*Technical contribution*” means a contribution to the state of the art in a technical field that is not obvious to a person skilled in the art. Technical contributions may result from:

- The problem underlying, and solved by, the claimed invention;
- The means (technical features) constituting the solution of the underlying problem;
- The effects achieved in the solution of the underlying problem;
- The need for technical considerations to arrive at the computer-implemented invention as claimed.

Claims to computer-implemented inventions can be drafted as a claim to a product (e.g., a programmed computer, a programmed computer network or other programmed apparatus) or to a process carried out by such a computer, computer network, or apparatus through the execution of software. Patents for “pure” business methods and social processes, however, would not be granted under the EC proposal because their contribution to the state of the art lies wholly in non-technical aspects.

The EC proposal states the computer programs “as such” (e.g., software on a disk) are expressly not regarded as inventions and therefore are excluded from patentability.

Specifically, the EC proposal states that a defined procedure or sequence of actions when performed in the context of an apparatus such as a computer may make a technical contribution to the state of the art and thereby may constitute a patentable invention.

Algorithms

On the subject of algorithms, the EC proposal provides that an algorithm consisting of a defined procedure or series of actions when performed in the context of an apparatus may make a technical contribution to the state of the art and thus be patentable. But pure or “abstract” algorithms existing in isolation from a physical environment are not patentable.

In stark contrast, in the U.S., software, business methods, algorithms and other inventions are patentable even if no technical contribution is made.

Impact of the EC Proposal and Suggestions for Action

If the EC proposal is adopted, it may have an impact on pending and future filed patent applications both in Europe and the U.S. The impact on pending and future European patent applications should be fairly straightforward. The scope of what can be patented will be dictated by this Directive. The more interesting question is what will

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happen to patents issued before the Directive is passed, but that are enforced afterwards. Will a patent issued before the Directive is passed and that exceeds the scope of protection afforded by the Directive be declared unenforceable? Or will there be some grandfather provision?

For European companies that file patent applications in Europe and then later file those applications in the U.S., this Directive may adversely affect the ability to obtain the full scope of protection available in the U.S. This inability to obtain the full scope of protection available can occur when the written disclosure portion of an application filed in Europe focuses solely on what is patentable in Europe. If this occurs, and the application is later filed in the U.S., the U.S. application may be rejected (or at least some of the claims may be rejected) on the basis that the disclosure does not comply with the “written description” or “enablement” requirements of the U.S. Patent laws. For example, if the disclosure does not “support” claims for pure business method inventions or aspects of software inventions beyond any “technical” contribution, such claim protection may be forfeited. To avoid this, it may be beneficial to have a U.S. patent attorney coordinate with a European patent attorney, *before an application is filed in Europe*. The U.S. attorney can help ensure that proper support exists in anticipation of the later filed U.S. application.

For U.S. applicants, where an invention is first filed in the U.S. and later filed in Europe, the con-

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verse may be true. Applications may have insufficient information about the "technical character" and/or "technical contribution" of the claimed invention to satisfy European patentability requirements. It may be beneficial to have a European patent attorney review such applications before a U.S. case is filed to avoid this potential problem.

1. Applicants currently have two ways to seek patent protection in the (EU). One way is through the EPO, which acts under the regulations of the centralized European Patent Convention (EPC). The other way is through the national patent offices in the respective Member States, which offices are governed by the national laws of the Member State.

2. The proposal requires approval of the European Parliament and Member States before it would take effect. If the proposal is passed, the EPO and the Member States will have to follow the proposed Directive and introduce provisions in their respective patent laws that set forth the proposed Directive's patentability criteria for computer-implemented inventions. □

James Gatto (jgatto@mintz.com) is a member in Mintz Levin Cohn Ferris Glovsky and Popeo, PC's Reston office and co-chair of its Intellectual Property Group firm wide. He focuses on all aspects of intellectual property law, including patent, trademark, copyright, trade secret, and Internet law. Mr. Gatto can be reached at 703-464-8182.

Litigation

Recent Developments in On-line Liability Around the World

BY JORGE CONTRERAS, CHRISTIAN BREUER AND MARK HAFTKE (HALE AND DORR)

Despite the fading of the dot-com bloom, analysts report that increasing numbers of companies across the world are taking advantage of the Internet's global reach to buy and sell products, provide services and support, and communicate with customers, prospects and the public. The continued growth in on-line activity, both by web-based and traditional bricks-and-mortar companies, has led to an increasing number of cases and legislative initiatives dealing with the extent of liability arising from on-line activities.

In this article, we will discuss a number of recent cases and legislative initiatives throughout the world that have limited or, in some instances, extended the principles established under these laws. While none of these developments formally rescinds the service provider protections offered by these laws, the ways in which they have been applied and the various efforts at limiting their effect may have a significant impact on the liability that on-line service providers face in the future.

Take-Down Provisions of the DMCA

The Scientology Cases. The Church of Scientology owns copyrights in many of its scriptural materials, and has traditionally protected these rights aggressively. It was the

Church's successful lawsuit against ISP Netcom in 1995 that contributed to the adoption of the safe harbor provisions of the DMCA, which protect on-line service providers from liability for infringing content posted on their sites by third parties (or for linking to infringing content on other sites) if they take down that content (or remove the link) when notified by the copyright owner. It is this "take-down" feature of the safe harbor that has attracted significant attention in recent months, again due to the enforcement activities of the Church of Scientology.

Earlier in 2002, the Church notified the popular Google Internet search engine that Google was permitting access to Xenu.com, a Norwegian site critical of Scientology that was illegally displaying the Church's copyrighted material. The Church requested that Google take down its links to the site, and Google complied in order to retain the benefits of the safe harbor under the DMCA.

Most recently, the Church brought its fight against Xenu.com to the Internet Archive, a digital library of stored webpages. Under pressure from the Church, the Internet Archive removed all Xenu.com pages from its archive, whether or not they included the Church's copyrighted material. First Amendment advocates have criticized both the Church's tactics and the provi-