



Protecting IP in a post-software patent environment

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Recently the Government announced its intention to adopt a select committee's recommendation to "exclude software from patentability" – that is, to ban software patents. Where will the ban – if implemented – leave local software developers' ability to protect their intellectual property?

How will the removal of software from patentability, if confirmed, affect the ability of local IT firms to protect the intellectual property in their software?

Putting aside the pros and cons of the software patent debate, let's start with four key facts:

First, relatively few firms pursue software patents in New Zealand, and the majority will therefore not notice any difference (except the welcome removal of a significant source of risk). Likewise, firms that currently own New Zealand software patents will not lose those patents.

Second, New Zealand firms will still be able to apply for software patents in countries that continue to allow them. This is no change from the current law, and simply reflects that patents are territorial - a New Zealand patent only provides rights in this country.

Third, excluding software from patentability will in no way leave software "unprotected". Software currently has the luxury of being one of the few endeavours to receive "double coverage", from both copyright and patent law. If patentability is indeed removed, software will continue to be protected by copyright (as it is around the world), which has long been regarded as its primary means of protection.

Fourth, many countries, including those in the European Union, similarly do not allow software patents (or business method patents, in some cases) or significantly restrict them,

and continue to have thriving IT industries (indeed, New Zealand didn't grant software patents until 1995).

So the short answer is that the change would have a minimal effect for most developers in this country. Nor would it "tilt the playing field" in either direction in terms of local versus foreign firms – the change applies to both equally. In addition, existing software patent holders can take comfort from the prospect that no new, potentially competing or challenging software patents would be granted in New Zealand.

Future IP

Assuming the proposal is implemented, how can local developers protect new IP in a post-software patent environment?

The answers are a mix of legal and practical considerations.

Orion Health CEO Ian McCrae, who backs the proposal, summed up the practical side well: "Our best protection is to innovate and innovate fast" (Computer, 15 April 2010). This reflects the fact that most New Zealand firms either choose not to attempt to patent their software, cannot afford the potentially high cost and uncertain outcome, or recognise it does not meet patent requirements.

For start-ups in particular, the argument can be made in many cases that limited funds are better spent on staff, development and other key requirements, than on a potentially costly,

time-consuming and uncertain software patent application (which, in New Zealand, would only grant rights in a very small market).

Patents require detailed disclosure of the invention – to obtain a New Zealand patent, the successful applicant discloses the workings of their invention to the world. While a New Zealand software patent could serve as the basis of applications in other countries and provide a priority date, the time, expense and disclosure required may not be conducive to an “innovate fast” strategy for small firms in a rapidly changing environment.

Of course, software patents can remain an important strategy when foreign markets (particularly the United States) are targeted for a software product – and in such cases, foreign software patents may still be applied for.

Legal protection

On the legal side, New Zealand developers have two key non-patent methods of protecting the IP in their software:

- Copyright
- Contractual protection

These have been the cornerstones of protecting IP in software since its earliest days. But how do they compare with the rights granted by a software patent?

Copyright

Copyright is the primary manner by which IP in software is protected around the world. Copyright protects original works (including computer programs), but does not protect the “idea” or purpose behind the work. For example, the source and binary code of an original program is protected by copyright, but the purpose or functionality provided by the program is not – someone else is free to write a program that performs a similar function, as

long as they do not copy the first program's code (or another aspect protected by copyright).

This differs considerably from a patent, which (in general terms) grants a monopoly over the underlying invention.

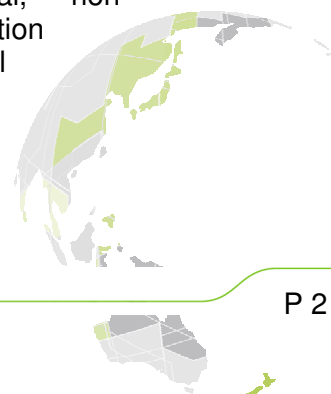
In New Zealand, original computer programs and related works are automatically protected under the Copyright Act 1994 from the moment of creation – there is no need to register copyright or add a copyright notice. And thanks to international treaties, the automatic copyright in a New Zealand work can be recognised and enforced in many countries around the world.

A patent, on the other hand, must be applied for (typically with specialist assistance). If granted, the patent is only effective in New Zealand. Additional patents must be applied for in each country for which patent rights are sought.

Contractual protection

Intellectual property is also commonly protected via contracts. Parties are generally free to negotiate whatever contract terms they want (there are some exceptions), including specific IP restrictions and protections.

Contracts can therefore provide patent-like protection of “ideas” and other commercial interests that may not be capable of protection under copyright. To give a common example, if an entrepreneur wants to disclose an idea (such as an idea for a program or new technique) to a potential investor, but wants to prevent the investor from either making use of the idea for themselves or disclosing it to others, a confidentiality agreement including those terms could be entered into (the law provides additional, non-contractual protection for confidential information). The agreement can



also contain an indemnity, providing a direct means of seeking damages and lost profits if the recipient breaches the agreement.

Contracts can also bolster protection of copyright works, and are typically essential in protecting trade secrets (which can include software code and processes).

However, unlike a patent, contractual protection only applies to the parties to the contract. A non-party will not be bound to the contract, whereas a patent can provide rights against the public at large (within its territorial scope).

Is the ban a bad thing?

There are certainly two sides to the software patent debate. However, after an eight-year review process (lengthy by any reasonable standard), public consultations, and submissions from all sides of the debate, parliament's Commerce select committee unanimously recommended they be banned. This has since been endorsed by the Government, and received cross-party support. Perhaps most significantly, it has also

received strong support from the local IT community.

My view is that the arguments against software patents outweigh those in favour.

There is no doubt that banning software patents in this country reduces a source of risk for all New Zealand software developers. Everyone from professionals to hobbyists, from major corporations to small businesses, from proprietary to open source developers, benefits from a reduced threat of software patent liability in New Zealand.

Meanwhile, New Zealand developers can continue to seek software patents in countries that allow them. In other words, firms that see software patents as essential to their international strategies or attracting investors will still be able to seek those software patents, where available.

Whether or not a software patent can or will be sought, it is essential for firms to understand the options for protecting valuable IP via robust copyright and contractual measures, supported by appropriate business processes.

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