

EETimes

November 29, 1999, Issue: 1089

Section: News

Industry struggles to define a model for resolving intellectual-property conflicts -- Licensing strategy for 3G cellular under fire

Junko Yoshida

PARIS - Proponents of third-generation cellular telephony are setting up an independent company to oversee intellectual-property claims for 3G technology. But the move is already drawing fire from some observers, who say the effort lacks the clout of a full patent pool or licensing agency.

Starting in March, the 3G Patent Platform, set up by the Universal Mobile Telecommunications System (UMTS) group shepherding 3G standards, will assume its role as "a single-door entry for evaluating, certifying and licensing 3G technology," said Serge Raes, secretary of the UMTS Intellectual Property Association, based here. The group plans to hand off much of that work to an independent agency.

But some intellectual-property (IP) experts bidding for the job say 3G needs a more structured approach than what UMTS is planning, both to ensure that all patent holders participate and to ease the process of collecting royalties.

The debate comes as the industry grapples with how best to handle patent claims from multiple companies on technologies destined for wide deployment. Independent consultants-largely attorneys and accounting firms-are assuming what appears to be a growing role in areas such as licensing administration, patent evaluation and royalties collection.

Indeed, hiring outside experts to sort through the tangled web of IP rights essential to emerging standards has become a trend. A group of consumer and computer companies including Apple, Compaq, Sony, Matsushita and Toshiba have just handed responsibility for implementing a joint licensing program for IEEE 1394 to an independent agency called 1394la, newly formed within the MPEG LA, itself a pioneer in the field of patent pooling (see story, page 16). Almost every other cross-industry spec set in recent years-including DVD, various copy-protection schemes and the Digital Video Broadcast standard-also rely on patent pooling.

Legal and technology experts agree there is no single formula that ensures success for high-tech IP licensing. However, the 3G Patent Platform is viewed as a particularly high-stakes project that faces the huge challenge of getting key IP holders to sign on to the one-stop shopping concept. One major player, CDMA pioneer Qualcomm Inc., has dug in its heels in opposition to any of the proposed 3G patent arrangements.

In this climate, the 3G Patent Platform appears to be following an uncharted path. It will be set up as a new, nonprofit company called NewCo that is "neither a patent pool nor a licensing agency," said Raes of the UMTS IP association. Rather, the group will oversee the task of licensing administration and patent evaluation, which it plans to outsource.

"The outsourcing is planned in order to ensure independent evaluation and certification process by expert evaluators," said Raes.

Unlike most other such agencies, NewCo will steer clear of such business activities as pooling patents and collecting royalties. Under the 3G Patent Platform scheme, the licensees will pay royalties directly to the companies holding the corresponding licenses. Patent holders and licensees are free to negotiate deals to meet their business requirements. All licenses, whether obtained through the 3G Patent Platform or by separate negotiation, are made between the patent holder and the licensees.

In this way, the 3G Patent Platform aims to create a voluntary, industry-led process that simplifies IP rights and cuts the cost of patents, in hopes of gaining a bigger market for the platform. According to industry sources, a lesson was learned from GSM phones. Today, 20 percent of the cost of a second-generation GSM handset pays for IP rights, due to the lack of a joint licensing program

Standard rate

Under the proposed 3G Patent Platform, from the first granting of a license through subsequent 3G patent processes, all licensees will pay the same standard royalty rate, subject to the maximum cumulative royalty rate, a setup designed to "provide a pragmatic answer to an industrywide concern," said Raes.

Some experts outside the UMTS, however, have questioned whether a hands-off, nonprofit structure like NewCo can work. The 3G Patent Platform still needs to attract some key players to its camp. Further, even after going through the 3G Patent Platform processes, individual companies will retain the dirty job of royalties collection. Some have warned that the 3G Patent Platform's licensing mechanism may be a recipe for failure.

"The way some of the basic responsibilities are structured by the 3G Patent Platform makes me wonder whether it can be successful," said Larry Horn, vice president of licensing and business development at MPEG LA, who nevertheless plans to bid for the 3G job. "It strikes me that the 3G proposal underappreciates the value of marketing and salesmanship required to get more IP holders signed on for licensing, and the hands-on job of collecting royalties from licensees."

The Denver-based MPEG LA is an independent agency that has established a successful IP model for MPEG-2 video patent pooling. By getting a clean bill of health from the U.S. Department of Justice, which ruled in June 1997 that the agency is not anti-competitive, MPEG LA is believed to have shown the way for commercializing complex, cross-industry standards.

The business models for MPEG LA and the 3G effort are markedly different. Since 3G royalty payments are arranged between licensees and licensors, no fee is taken out of the royalty revenues. According to Raes, the licensing administrator adds no value to the royalties flow. Instead, the administrator keeps records of net sales value declared by the licensees for each license and per product category, he added.

In contrast, at MPEG LA, it is the licensing administrator's responsibility to collect royalties and to bring companies holding essential IP to the joint licensing program, Horn said. Because MPEG LA earns its fee according to the amount of money it successfully collects from technology users, "we are financially more motivated to succeed in [patent pooling]," explained Horn.

Horn said that both MPEG LA and the new 1394la are using the same fee structure. The licensing administrators get 10 percent of what they collect from licensees, for collected royalties up to \$75 million annually. The cut drops as annual royalties rise. For example, administrators get 5 percent for collected yearly royalties between \$75 million and \$250 million, and only 2.5 percent for royalties above \$250 million a year.

The business model for a 3G licensing administration is still "a gray area," said Helene Jay, vice president of licensing at Sipro Lab Telecom (Montreal), which is also bidding on the 3G job. Jay speculated that the financial gain from this job "will not be very big." Her company's interest is not money but "to get as much exposure as possible," she said.

Others tendering bids for the 3G Patent Platform job also debated the appropriate role of the licensing administrator. The key issue, many said, is a matter of control: how much power an industry group-composed of patent holders and licensees-should keep to itself to act as mediator.

Some argued that the industry group should grant the independent licensing administrator responsibility for critical negotiations in pulling together a joint licensing program. MPEG LA's Horn, for example, expressed concern that the 3G folks might mistakenly limit the licensing administrator to acting only as "a facilitator or a coordinator" of licensing procedures.

Sipro's Jay said that an independent licensing administrator appointed by the 3G Patent Platform will not be expected to mediate at all. For example, the responsibility of recruiting Qualcomm, a critical holdout from the 3G Patent Platform, will fall to a director general of NewCo, she said.

However, Raes said that job will be shared by NewCo and its administrator. "Promotion of an innovative licensing scheme [and attracting new members are] one of the tasks of the licensing administrator, but also of the members of NewCo."

According to rules and conditions agreed upon by a UMTS working group, a licensee becomes a member of the 3G Patent Platform upon being granted a license, and is required to accept the principle of reciprocity. Members of the 3G Patent Platform will become voting members of NewCo. The management of NewCo will be delegated to a director general.

Brian Kearsy, president of the UMTS IP association, said in an interview with EE Times a few months ago that "We think we will cover 65 to 75 percent of the owners of essential intellectual-property rights. The alternative is a free-for-all, as happened in GSM, with a multitude of bilateral agreements." At that time, Kearsy said the agency was still lobbying Qualcomm to sign on.

Having NewCo play the role of mediator may not be the best strategy, some argued, saying that job is best left to a third party. "Having an arm's -length relationship has a serious advantage," said Horn. "Because we [at MPEG LA] are in a neutral position both from competing fellow IP holders and from licensees, I believe they trusted us more in negotiation."

Besides neutrality, licensing administrators need expertise in licensing and technology, organizational competence, and the ability to deal with agencies and corporations in geographically diverse regions, said Sipro's Jay. Riding on its success in putting together a patent pool for G.729 voice compression, she claimed that her company can fill the bill.

"We believe the fact that we are a small company works to our advantage. Everyone who has dealt with us before knows exactly how we do business," said Jay.

The closing date for bidding to be the 3G Patent Platform's licensing administrator is "still to be defined," said Raes. He added, however, that "All processes should be completed and [a] contract signed at the time NewCo is launched in spring 2000."

Those who participated in an initial bidders' conference in London earlier this month include the U.K. companies PA Consulting and BTG International, Canada's McCarthy Tetrault, Germany's Cohausz & Florak, France's Cabinet Patrice Vidon and the U.S. company PriceWaterhouse Coopers, along with Sipro and MPEG LA.



750, chemin Lucerne.
Suite 200
Ville Mont-Royal, Quebec
Canada. H3R 2H6

tel. (514) 737-5874
fax. (514) 7372327
<http://www.sipro.com>