

# Patent pools in practice

Patent pools help markets develop and accelerate the adoption of technology standards while saving patent owners time and expense. They can bring order to a chaotic IP landscape

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*In theory there's no difference between theory and practice. In practice, there is. — Yogi Berra*

For as much attention as they get from academics and regulators, it is surprising how few successful patent pools are up and running. "Successful" in this context means, on the one hand, delivering value to licensees by providing a one-stop shop for essential patents; and on the other, satisfying the revenue expectations of the pool licensors. In that sense, unfortunately, there are more patent pools in theory than there are in practice.

A patent pool is a practical solution to a set of difficult commercial problems. This set of problems is most apparent in connection with standards-setting activities to which dozens of companies or institutions contribute expertise, know-how and inventions. When the dust settles after technical work is complete and a standard finalised, it is regularly seen that numerous entities hold patents or patent applications which would be considered essential to the standard, meaning patents that are unavoidably infringed by the practice of the standard. Standard-setting organisations (SSOs) generally have policies which involve disclosure of essential intellectual property, particularly

essential patents, at the time the standard is being defined and also require owners of such patents to declare a willingness to license them on terms ranging from royalty free to the more frequently required reasonable and non-discriminatory (RAND) terms.

Such policies represent best practice, but the scope of an SSO's activities stops with the publication of a specification. Shepherding the commercialisation of a technology occurs in a different realm. No matter how compelling the new standardised technology may be, if there is uncertainty about the IP landscape, potential adopters will be cautious. Caution delays deployment. Delayed deployment frustrates the enthusiastic contributors to the new standard and frustrates the SSO that fostered it. Frustration leads to blame and in the meantime there is no market, no benefit and no opportunity.

## **Servicing business needs efficiently, fairly and reasonably**

Despite unfavourable market conditions, there are business imperatives. The standard has been set and it is time to capitalise on the hard work and valuable patents. Some of the essential patent owners anxious to start commercial activities may be research organisations whose revenue comes primarily from licensing. Others may be large, vertically integrated manufacturing companies with expertise, resources and IP departments expecting to start their own licensing activities targeting the standard. These licensors take their RAND licensing commitments seriously and pursue potential licensees offering licence terms that, taken individually, are probably reasonable, and which they intend to offer on a non-discriminatory basis.

The problem is that the cost of the essential patents does not present itself to customers – the potential licensees – individually. It is the sum of the cost of the essential patents from multiple licensors that hits a licensee’s bottom line. Who is to say if that total cost is reasonable? From a market and competitive standpoint, who is to say that each licensee would be operating under the same terms? For example, a large licensee in Japan may be targeted by seven licensors, while a smaller licensee in Australia may be targeted by only four. In theory, RAND is neat; in practice, RAND is elusive and can be difficult to implement.

This type of problem has been described by Michael Heller as the “tragedy of the anticommons”. The title of his book, *The Gridlock Economy – How Too Much Ownership Wrecks Markets, Stops Innovation, and Costs Lives*, sums it up dramatically. Individual actors pursuing their individual interests can spoil a good thing.

#### **Cooperation benefits all**

The premise of a collaborative standards-setting process is for multiple parties to work together in order to accomplish what would be impossible for a single party to bring about on its own. In these circumstances, there is an institutionalised spirit of cooperation. The good news is that this can lead to a willingness to cooperate in putting together a market-friendly offering of a portfolio of essential patents from multiple licensors – a patent pool licence.

From a licensee’s perspective, the promise of a patent pool is the availability of a licence to as many essential patents as possible, under a single agreement and through a single transaction. This is a practical and efficient scenario compared to the alternative. Without a patent pool, a potential licensee would face a set of individual negotiations with multiple essential patent holders. If there are even four or five such licensors, let alone 15 or 20, to negotiate with, it would be impractical for any but the largest licensee companies to assemble the rights to the patents that are essential to the practice of the technology.

From a licensor’s perspective, the promise of a patent pool is twofold. First, a pool is a practical way to fulfil the non-discriminatory licensing obligation it undertook by participating in the standards-setting process. Second, the pool is a low-overhead way to generate revenue. A patent pool licence administrator has the job of identifying licensees, executing and enforcing licence agreements, collecting

royalties from licensees and distributing licence fee revenue to licensors participating in the pool. Without a patent pool, multiple licensors would need to undertake these activities individually and the net result for both licensees and licensors would be inefficient, costly, confusing and impractical for all but the most sophisticated licensing organisations.

That’s the theory, and it may surprise you to learn that in practice, patent pools can deliver precisely these virtuous outcomes – when conditions are right.

#### **Fostering a pro-competitive environment to proliferate standards**

Certain important principles dictate how a patent pool should be formed and operated if the pool is to stay in the good graces of competition authorities. First among these is that only licensors owning essential patents should be eligible to join the pool, and the pool licence should include only the licensors’ essential patents. Essentiality should be determined by an independent expert evaluator, and not by other licensors or by a pool administrator. On this basis – the filter being a positive determination of essentiality by an independent evaluator – a group of essential patent holders can come together jointly to develop the commercial terms for a joint patent licensing programme.

In practice, this is where politics enters the picture and it can be the point at which the potential success of the licensing programme may be divined. As alluded to above, there are more patent pools than there are successful patent pools, just as there are more products in the market than there are successful products in the market. The reasons for this are many: the standard itself may not be commercially accepted, the pool licence may be made available too early or too late, the cost of the licence may be too high or lack of awareness for the licensing programme may hinder demand, to name a few. In addition, there are other, less familiar reasons why patent pools may or may not be successful which have to do with individual company strategies.

An interesting aspect of patent pool development is to see a group of companies come to understand what is possible for the group to achieve while remaining intact. The goal of a patent pool is to make available under the pool licence as many essential patents owned by as many licensors as possible. To the extent that an essential patent holder is not participating as a licensor in the pool, the licensing programme is short of its goal. The parties at the table jointly to develop the

programme recognise that the eventual offering will be weakened if some among them defect. Though in other circumstances these companies may compete with each other, in establishing a patent pool they are teammates.

### **The global aspect of patent pools**

Many of today's standards-setting forums are international bodies with contributors from around the world. This means that the group of essential patent holders will consist of people who are more or less comfortable or capable of speaking the same language, coming from companies with different business cultures and goals and, of course, different national cultures. Some participants will be very experienced with patent pool development activities and some will be participating for the first time. Companies will be represented by patent attorneys, others by licensing specialists, some by business or strategic development personnel and occasionally the representatives are engineers. This is the team.

### **Laying the foundation for positive market outcomes**

The composition of the essential patent holder group can serve either to improve or diminish the success of a licensing programme. A constructive mix consists of some companies that have a stake in manufacturing or developing the technology which is the subject of the licence, and some companies whose sole motivation is licensing revenue. When parties at opposite ends of this spectrum can arrive at mutually acceptable licensing terms, such an agreement could well reflect the reaction of real markets to the terms of the licence. For example, if the cost of the licence is too high (the result of natural tendencies of "pure" licensors), then there will be little or no adoption and nobody wins. If the revenue from the licensing programme is too low to attract licensors (the result of natural tendencies of manufacturing licensors), there will be insufficient value in the pool licence and no solution to the IP problem, and nobody wins.

A difficult challenge in the patent pool formation process arrives in the form of an initially hidden or secondary agenda of a patent owner. For example, a company may hold essential patents for the subject technology, X, but would profit more if Y, a competing technology, were to win in the market. Or perhaps the best outcome, in their view, would be for the pool initiative to fail. This is a fox in the henhouse, which can be very disruptive to the process.

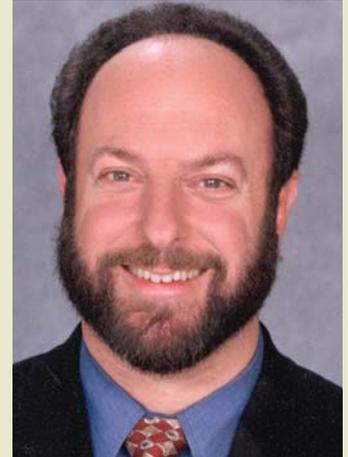
However, resolving or mitigating such issues upfront as the terms of the pool licence are defined is far better than seeing them disruptively play out in the market over time. This realisation can lead to sustained efforts to keep parties engaged and at the table in order to deliver an acceptable commercial solution.

In the constellation of pool licensors, one wants to see a microcosm of the market for the eventual pool licence. If the concerns of their future customers are not well understood, or better yet, strongly felt, by those putting together the licensing terms, a positive outcome is unlikely. To the extent that the variety of concerns of the patent owners themselves can be juggled, accommodated, overcome or otherwise satisfied in the same licence that is to be offered to the market, that licence has a good chance of being acceptable to the market.

### **Accelerating the adoption of new inventions**

A patent pool licensing programme can take months or years to develop. If conditions are right, a pool can effectively address numerous practical problems: licensees can practically deploy standardised technologies, even if they are heavily patented, knowing they have broad coverage through the pool and that their cost for the pool licence will be their competitors' cost for the same licence. Licensors can simultaneously enable the market while practically monetising their essential patents with little overhead cost by licensing their essential patents through the pool. The standardised technology can flourish in the market because access to essential patents from a number of licensors has been made practical via a single transaction, on reasonable and non-discriminatory terms.

This is not a theory. This is how it's done. ■



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