

Qualcomm says no royalty cut in India

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Global patent holder of the code division multiple access digital wireless technology Qualcomm company, whose Chief Executive Officer Paul Jacobs is currently touring India on a firefighting mission, has categorically ruled out a cut in royalty; a demand that India has made on the company.

Jacobs, who landed in India yesterday to hard sell Qualcomm's CDMA technology in the world's fastest-growing wireless market, made it clear that his sales pitch does not include a cut in royalty it charges from Indian operators that include Reliance Communications and Tata Teleservices. These two companies have been pressuring Qualcomm to cut royalties to bring it down to the 2 percent level that Qualcomm is believed to be charging in neighboring Asian countries like China and South Korea.

According to Jacobs, royalty is not a big issue in India, but a bigger issue is the handset price which is the lowest in India.

"The biggest issue is that operators don't pay royalty, they buy the handset from manufacturers who pay the royalty," said Jacobs. "And Qualcomm uses that royalty in its research to reduce the handset prices which have dropped faster in CDMA than in any other technology because of competition."

Jacobs added that "Qualcomm's royalty in India is somewhere around the 5 percent, so on a \$40 handset the royalty is about \$2."

"Even if we reduce the royalty by half it just goes down by \$1. I think it makes better sense then, to continue spending on research that enables the manufacturers to drop handset prices" he said adding that "anyway, on absolute basis the royalty paid in India is about 15 percent lower than China and South Korea since the handset prices are so much lower here."

According to Jacobs, Qualcomm's research has enabled the manufactures to drop CDMA handset

prices by 25 percent in India in the past year. "In fact India is the only country where handset prices are decreasing most rapidly, anywhere in the world," he said.

The pressure to reduce royalty in India started about two weeks back when Reliance Communications, India's largest CDMA operator sought government permission to migrate to CDMA's rival technology, the global system for mobile communications or GSM.

Reliance said that limited use of the CDMA technology globally and higher costs are posing as stumbling blocks for it to offer "cheaper" roaming services to its subscribers, while higher prices of CDMA handsets, are also making its services less competitive vis-à-vis the services of the GSM operators.

Following this move, Tata Teleservices, the other major CDMA operator, also started making similar demands and subsequently these two operators were joined by the country's Department of Telecom that controls India's largest telecom companies.

Qualcomm though feels that India's problems with CDMA is not an issue of technology nor is it costs. According to the company a flawed spectrum -- radio frequency waves that carry voice and data to/from mobile phones -- policy in the country is the root cause of Reliance's problems which is driving them to expand in GSM.

Indeed India's spectrum policy is biased towards GSM operators. Since the GSM technology allows only a finite number of subscribers in a cell -- the CDMA technology on the other hand poses no such restrictions -- India's spectrum allocation for GSM operators is twice than that of CDMA's.

For instance India's GSM operators get 4.4 MHz of spectrum initially while CDMA operators get 2.5 MHz. But when the subscribers of GSM operators cross one million they become eligible for a total of

10 MHz. For crossing that level, the CDMA operators get only 5 MHz. That's because DoT, the spectrum allocator, feels that since the CDMA technology can carry about five times more traffic, it can operate efficiently with much lower spectrum.

The global average for GSM and CDMA operators is 20 MHz and 10 MHz respectively.

Nevertheless, Indian telecom companies are not the only ones that are giving Qualcomm a hard time. Last week Finland's Nokia announced it would not form a new CDMA device company with Japan's Sanyo. It cited Qualcomm's excessive royalty demands as its reasons, which it said would make it difficult to make profits in emerging markets like India and China.

Telstra, the Australian phone giant, one that offers both services, too has recently announced the termination of its CDMA services citing similar reasons.

Jacobs though played down the Nokia's pullout as a competition-defeating strategy. "Nokia controls 80 percent of the GSM handset market in the world," he said. "Obviously it wouldn't want a competing technology to flourish."

And although it appears that GSM is winning the global standards war -- at least for the time being -- Jacobs feels that eventually all GSM players would have to move towards CDMA.

"There is a lot of pressure in the developing world to use GSM and even switch from CMA, which is a third generation (3G) technology back to second generation technology, (2G) like GSM," said Jacobs. "But I do not think it is good idea because 3G offers data capabilities along with voice capabilities. And studies have revealed that when there's data along with voice, there's a more profound impact on the economy in terms of a higher increase in per capita gross domestic product (GDP)."

"That's why I think 3G technology like CDMA is so important for developing countries and I feel that all operators will eventually end up moving to the CDMA pack because all operators will have to offer

3G earlier than later," he added.

Still, Indian CDMA players are sticking to their demands.

"India is a different from other parts of the world and works on different dynamics," said Darryl Green, CEO, Tata Teleservices. "The general feeling of the industry players is that Qualcomm should reduce royalty to bring it down to the royalty charged in other parts of Asia (like China and South Korea)."

But instead of cutting royalty Jacobs is trying to offer a quid pro quo. Reports suggest that in his meeting with the communications and information technology minister Dayanidhi Maran this morning, he has offered to fund a government-promoted telecom research institute in the country.

Moreover, he is also expected to announce a ramp up of Qualcomm's research and development facility in the country along with a higher hiring plan.

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