STANDARD ESSENTIAL ROYALTIES ACT

Purpose: To provide a high-quality and efficient system for adjudicating reasonable royalties for patents that are essential to the implementation of interoperable technical standards.

SEC. 1. SHORT TITLE

This Act may be referred to as the “Standard Essential Royalties Act.”

SEC. 2. FINDINGS

The Congress finds that—

(1) the negotiation and development of universal technical standards allows products made by different manufacturers to be interoperable and compatible with each other;

(2) use of interoperable technical standards increases competition, reduces prices for consumers, and provides enormous benefits to the United States economy;

(3) organizations that develop technical standards typically require participants in the standard-setting process to commit to license patents that are essential to the implementation of the standard on reasonable and non-discriminatory terms;

(4) reasonable and non-discriminatory licensing commitments, by precluding remedies that are based on market exclusivity, ensure that incumbent firms do not use their patents to prevent new entrants from competing in the markets for products that implement various technical standards;

(5) payment of reasonable royalties ensures that inventors are fairly compensated for the value of their technological contribution to a standard and are incentivized to innovate;

(6) implementation of a technical standard may require licenses to a large number of patented inventions that are claimed to be essential to the standard; for example, it is estimated that over 100,000 patents and applications have been declared essential to the implementation of the fifth-generation wireless telephony standard;

(7) some of these patents’ claimed inventions make valuable contributions to these technical standards and others do not;

(8) piecemeal adjudication of the patents that read on a technical standard in separate lawsuits at different times has in some cases resulted in—

   (A) inconsistent damages awards and settlements that do not fairly compensate different patent owners in relation to each other and in proportion to the value of their technological contributions to the standard;

   (B) individual damages awards that overlap with other awards and cumulatively result in an unreasonable overall rate for the use of the standard; and
(C) denial of licenses on reasonable terms to American manufacturers, placing them at a
disadvantage to competitors in jurisdictions with effective mechanisms for adjudicating
reasonable royalties for standard-essential patents;

(9) in the absence of an efficient system in the United States for determining reasonable royalties for
standard-essential patents, some patent owners and manufacturers have resorted to foreign courts to
set royalties for patents issued by the United States;

(10) a foreign court’s compelled adjudication of royalties for a United States patent violates the
sovereignty of the United States; therefore

(11) there is a need for a federal cause of action that would allow patent owners and manufacturers
to determine reasonable royalty rates for the patents that are essential to the implementation of a
technical standard; and

(12) there is a need for a dedicated Article III court that can provide high-quality adjudication of
reasonable royalty rates for the patents that are essential to the implementation of a technical
standard.

SEC. 3. TECHNICAL STANDARDS ROYALTY COURT

Part 1 of title 28, United States Code, is amended by inserting after chapter 9:

“Chapter 10—Standards Royalty Court

“§ 221. Appointment of judges; offices.

“(a) The President shall appoint, by and with the advice and consent of the Senate, five judges who
shall constitute a court of record known as the Standards Royalty Court (hereinafter “court” in this
chapter). The court is a court established under Article III of the Constitution of the United States.

“(b) The judges of the court shall hold office during good behavior.

“(c) The Chief Justice of the United States may, upon presentation to him or her of a certificate of
necessity by the Chief Judge of the Standards Royalty Court, designate and assign temporarily or
permanently any Article III judge to serve as a judge of the court.

“(d) The offices of the court shall be located in Washington, D.C.

“§ 222. Powers and duties.

“(a) The court’s jurisdiction shall be exclusive over and limited to, and the court shall have all
powers in law and equity to adjudicate, actions under section 331 of title 35.

“(b) Cases and controversies shall be heard and determined by a panel of at least three judges.

“(c) In addition to the appointments authorized by Chapters 43 and 49, the court may select,
appoint, and fix the compensation of such personnel as it deems necessary, including personnel
selected and supervised by individual judges in accordance with court rules, and may procure the
services of experts and consultants in accordance with section 3109 of Title 5.
“(d) Except as otherwise provided by this chapter and chapter 33 of title 35, the court and its judges shall be subject to the rules and procedures of this title that apply United States District Courts and Judges.”

SEC. 4. REASONABLE AND NON-DISCRIMINATORY ROYALTY RATES

Part III of title 35, United States Code, is amended by adding at the end the following:

“Chapter 33—Action to Determine Reasonable and Non-Discriminatory Royalty Rates

§ 331. Cause of action.

“(a) A person shall have remedy by civil action in the Standards Royalty Court (hereinafter “court” in this chapter) to determine a reasonable and non-discriminatory licensing royalty rate for all United States patents that—

“(1) would necessarily be infringed by the practice of a technical standard; and

“(2) are committed to be licensed for reasonable and non-discriminatory royalties or on substantially equivalent terms.

“(b) A patent is committed to be licensed for reasonable and non-discriminatory royalties or on substantially equivalent terms if—

“(1) the patent has been identified by a person that contemporaneously owned the patent in whole or in part as subject to such a commitment; or

“(2) the patent is or has been owned in whole or in part by a person that has committed to license on such terms patents that would necessarily be infringed by the practice of the technical standard.

“(c) A person who participates in a standard-setting process and knowingly allows its technology to be incorporated into the technical standard shall be presumed to have committed to license its patents that claim such technology that is essential to the standard on reasonable and non-discriminatory terms.

§ 332. Reasonable and non-discriminatory royalty rate.

“A reasonable and non-discriminatory royalty rate is a uniform licensing rate that reflects the value of the claimed technology in view of alternatives that were available before the technical standard was adopted, if any.

§ 333. Public notice and participation; single action.

“(b) Except as provided in section 335, the first action that is published under subsection (a) shall be the exclusive action under section 331 with respect to the technical standard, and all other actions filed with respect to the standard shall be dismissed.
“(c) Within 120 days of the publication of the notice of an action under subsection (a), any person that believes that it is entitled to a royalty for infringement of a patent described in section 331 with respect to the standard may join the action as a plaintiff. A plaintiff seeking entitlement to a portion of the royalty determined under section 334 shall bear the burden of—

“(1) identifying all patent claims for which the party seeks a royalty and explaining with particularity how each claim is essential to the standard;

“(2) proving with reliable evidence the value of the claimed technology in view of alternatives that were available before the standard was adopted, if any;

“(3) as required by the court, ranking one or more of its patents that the party believes to be the most valuable patents that it identified under paragraph (1) under the criteria of paragraph (2); and

“(4) meeting any other requirements imposed by the court’s rules.

“(d) Any person that seeks a license for a patent described in section 331 with respect to the technical standard may join the action as a defendant. Any defendant—

“(1) may submit evidence that is relevant to the court’s determination under section 334;

“(2) shall submit such information as the court may require; and

“(3) may request a license and the determination of a reasonable royalty rate under section 334.

“§ 334. Determination and allocation of reasonable royalty rate.

“(a) The court shall consider all relevant evidence submitted by the parties under section 333. The court may obtain the opinions of independent analysts and experts as to the value, validity, or essentiality of any patent identified under section 333(d)(1), may require by subpoena the production of information or evidence from persons who are not a party to the action, and may assign matters for resolution by a magistrate judge as appropriate.

“(b) Upon briefing and a hearing, the court (without jury) shall determine—

“(1) an overall reasonable royalty rate or rates for implementation of the technical standard;

“(2) each plaintiff’s entitlement to its appropriate portion of that royalty rate in view of the value of the technology claimed in the plaintiff’s patent claims that is essential to the standard; and

“(3) such other terms as are appropriately included in a license to a defendant.

“335. Readjustment of royalty rate.

“Within a period established by the court’s rules that shall not exceed three years after the court makes a royalty determination under section 334, the court shall entertain one or more additional actions under section 331 with respect to the technical standard. In such additional actions, the court may adjust the rates and allocations previously determined under section 334 and set new rates in view of the issuance of additional patents, the expiration of patents, and other appropriate evidence.

“(a) An action under section 331 shall be the exclusive means for determining a royalty rate for a patent described in section 331. The court shall not stay an action under section 331 on account of another proceeding involving the assertion of a patent claim for which a royalty is or could have been sought in the action under section 331. The court may issue appropriate injunctive relief with respect to the parties to such other proceeding as necessary to ensure the fair and efficient adjudication of the action under section 331.

“(b) Except as provided in subsection (b), a person that initiates or voluntarily participates in a foreign governmental proceeding that would determine a royalty for, compel a license to, or impose a remedy for the infringement of a United States patent described in section 331 or other patent adjudicated in an action under section 331—

“(1) shall be barred from participating in an action under section 331 with respect to the technical standard; and

“(2) shall not receive a portion of the royalties adjudicated under section 334 with respect to the technical standard, nor shall the assignee of patents or applications that were owned in whole or in part by the person during or after its participation in the foreign proceeding receive a portion of such royalties for such patents.

“(c) The judgment or result of a foreign governmental proceeding described in subsection (b) shall not satisfy or offset any liability for infringement of a United States patent or other patent adjudicated in an action under section 331.

“(d) A person shall not be deemed to have voluntarily participated in a foreign governmental proceeding described in subsection (b) if such participation—

“(1) was undertaken because the person was contractually obligated to indemnify or defend a party that was sued in the proceeding; or

“(2) consisted solely of the assertion of defenses to liability.

“(e) On a motion in a United States court to enjoin a person from participating in a foreign governmental proceeding described in subsection (b)—

“(1) the foreign proceeding shall be presumed to frustrate the policy of the United States and to threaten the in rem jurisdiction of the United States court;

“(2) an action under section 331 with respect to the technical standard shall be deemed to be sufficiently determinative of the foreign proceeding;

“(3) such relief shall be presumed to be consonant with international comity; and

“(4) the court may also require the person to be enjoined to compensate the movant for any penalty, expense, or fee that is imposed on or incurred by the movant because of the foreign proceeding.
“337. Expansion by international agreement.

“(a) The President on behalf of the United States may enter into an agreement with another nation or convention to allow a reasonable and non-discriminatory licensing royalty rate for patents issued by that nation or convention to be determined in an action under section 331. Such an agreement may be entered into only with a nation (or a convention whose member nations) have a democratic system of government.

“(b) An agreement under subsection (a) may provide that the President shall appoint, by and with the advice and consent of the Senate, a judge to the court that is recommended by the other nation or convention. The agreement may impose terms and conditions on such judge’s service. Such an appointment shall not be subject to the numerical limitation in section 221 of title 28.

“(c) An agreement under subsection (a) may provide that the court shall deem that each party to an action under section 331 owns patents issued by the other nation or convention that have the same scope as the United States patents owned by the party.

“(d) Upon certification by the President to the Chief Judge of the Standards Royalty Court that the United States has entered into an agreement described in subsection (a), the court shall have jurisdiction to hear an action under section 331 with respect to the patents described in the agreement on the terms and conditions provided in the agreement.”.

SEC. 5. APPEALS

Section 1295(a) of title 28, United States Code, is amended—

(a) in paragraph (13) by striking “and”;

(b) in paragraph (14) by replacing the period with “; and”;

(c) by adding at the end the following:

“(15) of an appeal from a final decision of the Standards Royalty Court.”.

SEC. 6. EFFECTIVE DATE AND TRANSITION; SEVERABILITY

(a) Except as provided in subsection (b), this Act and the amendments made by this Act shall take effect on the date of the enactment of this Act and shall apply to all patents issued before, on, or after such effective date.

(b)(1) No action may be filed under section 331 of title 35, United States Code, until three judges are appointed to the Standards Royalty Court.

(2) Subsections (b) and (c) of section 336 of title 35, United States Code (as enacted by this Act) shall apply only to a person that initiates, maintains, or voluntarily participates in the foreign governmental proceeding after the effective date of this Act.

(b) As soon as is practicable after the enactment of this Act, the Chief Justice of the United States shall designate and assign an Article III judge to serve as a judge of the Standards Royalty Court.
(c) If any provision of this Act or the application of such provision to any person or circumstance is held to be unconstitutional, the remainder of the Act and the application of such provisions to other persons or circumstances shall not be affected thereby.