



# Vertical Agreements

The regulation of distribution practices  
in 41 jurisdictions worldwide

# 2009

Contributing editor: Stephen Kinsella OBE

Published by  
Global Competition Review  
in association with:

SIDLEY AUSTIN LLP  
**SIDLEY**



# United States

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## Antitrust law

- 1 What are the legal sources that set out the antitrust law applicable to vertical restraints?

A number of federal statutes bear directly on the legality of vertical restraints. Section 1 of the Sherman Act is the federal antitrust statute most often cited in vertical restraint cases. Section 1 prohibits ‘every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade’ (15 USC, section 1 (2006)). Section 1 serves as a basis for challenges to such vertical restraints as resale price maintenance, exclusive dealing, tying, and certain customer or territorial restraints on the resale of goods.

Unlike section 1, section 2 of the Sherman Act reaches single-firm conduct. Section 2 declares that ‘every person who shall monopolise or attempt to monopolise... any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony’ (15 USC, section 2 (2006)). In the distribution context, section 2 may apply where a firm has market power significant enough to raise prices or limit market output unilaterally.

Section 3 of the Clayton Act makes it unlawful to sell goods on the condition that the purchaser refrain from buying a competitor’s goods if the effect may be to substantially lessen competition (15 USC, section 14 (2006)).

Finally, section 5(a)(1) of the Federal Trade Commission Act (FTC Act) has application to vertical restraints. This declares unlawful unfair methods of competition (15 USC, section 45(a)(1) (2006)). Section 5(a)(1) violations are solely within the jurisdiction of the FTC. As a general matter, the FTC has interpreted the Act consistently with the sections of the Sherman and Clayton Acts applicable to vertical restraints.

Numerous states have also enacted state antitrust laws that prohibit similar conduct as the federal antitrust laws do. Nevertheless, unless otherwise specified below, these responses focus solely on federal antitrust law.

## Types of vertical restraint

- 2 List and describe the types of vertical restraints that are subject to antitrust law. Is the concept of vertical restraint defined in the antitrust law?

The varying forms of vertical restraints are not expressly defined by statute. Rather, these concepts have evolved through judicial decision-making, which is commonly referred to as the ‘common law’ of antitrust. Numerous types of vertical restraints have been the subject of review under the applicable antitrust laws, the most common of which are the following:

- resale price maintenance – agreements between persons at different levels of the distribution structure on the price at which a customer will resell the goods or services supplied. Resale price maintenance can take the form of setting a specific price; but

commonly it involves either setting a price floor below which (minimum resale price maintenance) or a price ceiling above which (maximum resale price maintenance) sales cannot occur;

- customer and territorial restraints – these involve a supplier or upstream manufacturer of a product prohibiting a distributor from selling outside an assigned territory or particular category of customers;
- channel of distribution restraints – these function similarly to customer or territorial restraints in that an upstream manufacturer or supplier of a product prohibits a distributor from selling outside an approved channel of distribution. Commonly, such restraints involve a luxury goods manufacturer prohibiting its distributors from selling over the internet;
- exclusive dealing arrangements – these require a buyer to purchase products or services for a period of time exclusively from one supplier. The arrangement may take the form of an agreement forbidding the buyer from purchasing from the supplier’s competitors or of a requirements contract committing the buyer to purchase all, or a substantial portion, of its total requirement of specific goods or services only from that supplier. These arrangements may to some extent foreclose competitors of the supplier from marketing their products to that buyer for the period of time specified in the agreement;
- exclusive distributorship arrangements – these typically provide a distributor with the right to be the sole outlet for a manufacturer’s products or services in a given geographic area. Pursuant to such an agreement, the manufacturer may not establish its own distribution outlet in the area or sell to other distributors; and
- tying arrangements – an agreement by a party to sell one product (the tying product), but only on the condition that the buyer also purchases a different (or tied) product. Tying can involve services as well as products. Such tying arrangements may force the purchaser to buy a product it does not want or to restrict the purchaser’s freedom to buy products from sources other than the seller.

## Legal objective

- 3 Is the only objective pursued by the law on vertical restraints economic, or does it also seek to protect other interests?

Yes, in modern federal antitrust enforcement and jurisprudence, the sole goal of antitrust is to maximise consumer welfare.

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**Responsible agencies**

- 4** What agency is responsible for enforcing prohibitions on anti-competitive vertical restraints? Where there are multiple responsible agencies, how are cases allocated? Do governments or ministers have a role?

The Federal Trade Commission (FTC) and the Antitrust Division of the Department of Justice (DoJ) are the two federal agencies responsible for the enforcement of federal antitrust laws. The FTC and the DoJ have jurisdiction to investigate many of the same types of conduct, and therefore have adopted a clearance procedure pursuant to which matters are handled by whichever agency has the most expertise in a particular area.

Additionally, other agencies, such as the Securities and Exchange Commission and Federal Communications Commission, maintain oversight authority over regulated industries pursuant to various federal statutes, and therefore may review vertical restraints for anti-competitive effects.

Finally, state attorneys general can enforce federal antitrust laws based upon their *parens patriae* authority and state antitrust laws based upon their respective state statutes. *Parens patriae* authority allows the state to prosecute a lawsuit on behalf of citizens or natural persons residing in its state to secure treble damages arising from any violation under the Sherman Act (see question 42).

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**Jurisdiction**

- 5** What is the test for determining whether a vertical restraint will be subject to antitrust law in your jurisdiction? Has the law in your jurisdiction regarding vertical restraints been applied extraterritorially?

The longstanding rule in the US is that conduct that has a substantial effect in the US may be subject to US antitrust law regardless of where the conduct occurred (*United States v Aluminum Company of America*, 148 F2d 416, 443-44 (2d Cir 1945)). The Foreign Trade Antitrust Improvements Act of 1982 limits the subject-matter jurisdiction of the antitrust laws, however, by providing that the Sherman Act shall not apply to commerce or trade with foreign nations except where the conduct has a direct, substantial, and reasonably foreseeable effect on domestic commerce (15 USC, section 6a (2006)). Analogous jurisdictional principles also apply to the extraterritorial application of both the Clayton and FTC Acts.

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**Agreements concluded by public entities**

- 6** To what extent does antitrust law apply to vertical restraints in agreements concluded by public entities?

Under the 'state action' doctrine, the US Supreme Court has allowed defendants to show that the operation of a state regulatory scheme precludes the imposition of antitrust liability, thereby shielding the anti-competitive conduct in question. In the landmark case of *Parker v Brown*, 317 US 341 (1943), the Supreme Court upheld, as an 'act of government which the Sherman Act did not undertake to prohibit', a California programme that regulated the marketing of raisins. The *Parker* doctrine has been interpreted as requiring two standards for the application of antitrust immunity (see *California Retail Liquor Dealers Ass'n v Midcal Aluminum Inc*, 445 US 97 (1980)). First, the challenged restraint must be undertaken pursuant to a clearly articulated and affirmatively expressed state policy to replace competition with regulation. And second, the policy must be actively supervised by the state itself. Departures from competition immunised by the state action doctrine can be independently authorised by state legislatures or the state's highest court. The availability of state action immunity to other lesser instrumentalities of the state varies depend-

ing upon how clearly articulated the state policy is under which the challenged activity is undertaken; namely whether the challenged activity was a foreseeable result of a specific grant of authority.

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**Sector-specific rules**

- 7** Do particular laws or regulations apply to the assessment of vertical restraints in specific sectors of industry? Please identify the rules and the sectors they cover.

There are no particular rules or sections of the applicable federal antitrust laws that focus on a specific sector of industry. Nevertheless, in regulated industries, such as agriculture, communications, energy, and healthcare, there may be industry-specific laws enforced by the relevant regulatory agency that regulate vertical restraints or vest the agency with power to do so.

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**General exceptions**

- 8** Are there any general exceptions from antitrust law for certain types of vertical restraints? If so, please describe.

There are no such general exceptions.

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**Agreements**

- 9** Is there a definition of 'agreement' – or its equivalent – in the antitrust law of your jurisdiction? When assessing vertical restraints under antitrust law does the agency take into account that some agreements may form part of a larger, interrelated network of agreements or is each agreement assessed in isolation?

Under US antitrust law, an 'agreement' entails 'a conscious commitment to a common scheme designed to achieve an unlawful objective' (*Monsanto Co v Spray-Rite Service Corp*, 465 US 752, 768 (1984)).

Agencies reviewing vertical restraints almost always employ the 'rule of reason'. Under a rule-of-reason analysis, the totality of facts and circumstances surrounding the agreement are taken into account, including any other related agreements that affect competition in the relevant market (see question 13).

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**Parent and related-company agreements**

- 10** In what circumstances do the vertical restraints rules apply to agreements between a parent company and a related company (or between related companies of the same parent company)?

A violation of section 1 of the Sherman Act requires a showing of concerted action on the part of the defendant. In *Copperweld Corp v Independence Tube Corp*, 467 US 752, 777 (1984), the US Supreme Court held that, as a matter of law, a corporation and its wholly owned subsidiaries 'are incapable of conspiring with each other for purposes of section 1 of the Sherman Act'. The *Copperweld* exception has been applied by lower courts to numerous other situations including: two wholly owned subsidiaries of a parent corporation (sister corporations); two corporations with common ownership; a parent and its partially owned subsidiary; a wholly owned subsidiary and a partially owned subsidiary of the same parent corporation; and companies that have agreed to merge. At least one court has extended the *Copperweld* exception to claims under section 3 of the Clayton Act where the purchaser and the seller are affiliated. Courts generally hold the *Copperweld* exception to be inapplicable to partial holdings approaching or below 50 per cent. The *Copperweld* exception, however, is inapplicable to section 2 of the Sherman Act which contains no requirement of concerted action on the part of the defendant.

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**Agent–principal agreements**

- 11** In what circumstances does antitrust law apply to agent–principal agreements in which an undertaking agrees to perform certain services on a supplier's behalf for a commission payment?

Consignment and agency arrangements between a manufacturer and its dealer do not constitute a vertical pricing restraint subject to Sherman Act liability as long as they are bona fide. Where a manufacturer does not transfer title to its products but rather consigns them, the manufacturer is free to unilaterally dictate the sale prices for those products. Moreover, in light of the US Supreme Court's recent decision eliminating the distinction between price and non-price restraints for purposes of Sherman Act liability, see *Leegin Creative Leather Products Inc v PSKS Inc*, 127 S Ct 2705 (2007), a 'sham' consignment or agency arrangement will be subject to analysis under the rule of reason (see question 13).

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**Intellectual property rights**

- 12** Is antitrust law applied differently when the agreement containing the vertical restraint also contains provisions granting intellectual property rights (IPRs)?

Restraints involving intellectual property are analysed under the same principles of antitrust that are applied in other contexts. The DoJ and FTC have jointly issued Antitrust Guidelines for the Licensing of Intellectual Property ([www.usdoj.gov/atr/public/guidelines/0558.htm](http://www.usdoj.gov/atr/public/guidelines/0558.htm)), which lays out three general principles that guide the agencies' antitrust analysis in the context of intellectual property. First, the FTC and DoJ regard intellectual property as essentially comparable to any other form of property. Second, the agencies do not presume that intellectual property rights, particularly in the form of patents, create market power. And finally, the FTC and DoJ recognise that, often, intellectual property licensing allows firms to combine complementary factors of production and, as such, is generally pro-competitive.

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**Analytical framework for assessment**

- 13** Explain the analytical framework that applies when assessing vertical restraints under antitrust law.

In recent years, most vertical restraints have been analysed under the rule of reason. Rule-of-reason analysis begins with an examination of the nature of the relevant agreement and whether it has caused or likely will cause anti-competitive harm. The reviewing authority, whether it be a court, the FTC, or the DoJ, conducts a detailed market analysis to determine whether the agreement has or is likely to create or increase market power or facilitate its exercise. As part of the analysis, a variety of market circumstances are evaluated, including ease of entry. If the detailed investigation into the agreement and its effect on the market indicates anti-competitive harm, the next step is to examine whether the relevant agreement is reasonably necessary to achieve pro-competitive benefits that are likely to offset those anti-competitive harms. The process of weighing an agreement's reasonableness and pro-competitive benefits against harm to competition is the essence of the rule of reason. Where the pro-competitive benefits outweigh the harms to competition, the agreement is likely to be deemed lawful under the rule of reason. Where there is evidence that the arrangement actually has had anti-competitive effects, the rule-of-reason analysis may sometimes be shortened via a 'quick look' analysis.

Minimum resale price maintenance, unlike other vertical restraints, was long treated as per se illegal under federal antitrust law, rather than as subject to the rule of reason. In the recent case of *Leegin Creative Leather Products Inc v PSKS Inc*, 127 S Ct 2705 (2007), however, the US Supreme Court struck down the per se rule

against minimum resale price maintenance agreements, ruling instead that such restraints will be subject to rule of reason analysis. The court explained that agreements should fall into the 'per se illegal' category only if they always or almost always harm competition; for example, horizontal price-fixing among competitors. Minimum resale price maintenance, on the other hand, often can have pro-competitive benefits that outweigh its anti-competitive harm. Yet the court also explained that resale price maintenance agreements are not per se legal, and suggested that such agreements might violate federal antitrust laws where either a manufacturer or a retailer that is party to such an agreement possesses market power (see question 14).

Likewise, tying arrangements, which are a type of vertical non-price restraint, are treated in a somewhat different manner by the courts. Although courts recently have been inclined to consider the business justifications for tie-ins and have analysed the economic effects of the tying arrangement, hallmarks of a rule-of-reason analysis, a tying arrangement may be treated as per se illegal (ie, irrebuttably presumed to be illegal without the need to prove anti-competitive effects) if the following elements are satisfied: (i) two separate products or services are involved; (ii) the sale or agreement to sell one product or service is conditioned on the purchase of another; (iii) the seller has sufficient market power in the tying product market to enable it to restrain trade in the tied product market; and (iv) a substantial amount of interstate commerce in the tied product is affected. To the extent that these conditions are not met and a tying arrangement is not found to be per se unlawful, it may still be unlawful under a full-fledged rule-of-reason analysis.

- 14** To what extent does the agency consider market shares, market structures and other economic factors when assessing the legality of individual restraints? Does it consider the market positions and conduct of other suppliers and buyers in its analysis?

Detailed market analysis, including consideration of market shares, market structures and other economic factors, often is central to the wide-ranging analysis of vertical restraints under the rule of reason (see questions 9 and 13). Indeed, under the rule of reason, a reviewing agency or court generally will attempt to define a relevant market, one with both product and geographic dimensions, and then analyse whether the entity imposing an individual restraint exercises market power within the defined market. The Supreme Court has defined 'market power' as 'the ability to raise prices above those that would be charged in a competitive market' (*NCAA v Board of Regents*, 468 US 85, 109 n38 (1984)). An entity's market share is an important, and sometimes decisive, element in the analysis of market power – an analysis that, by its very nature, requires consideration of the market positions of competitors.

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**Block exemption and safe harbour**

- 15** Is there a block exemption or safe harbour that provides certainty to companies as to the legality of vertical restraints under certain conditions? If so, please explain how this block exemption or safe harbour functions.

There are no such block exemptions or safe harbour provisions relevant to the analysis of vertical restraints.

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**Types of restraint**

- 16** How is restricting the buyer's ability to determine its resale price assessed under antitrust law?

Resale price maintenance agreements, whether setting minimum or maximum prices, are evaluated under a rule-of-reason analysis (*Leegin Creative Leather Products*).

**17** Have there been any developments in your jurisdiction in relation to resale price maintenance restrictions in light of the landmark US Supreme Court judgment in *Leegin Creative Leather Products Inc v PSKS Inc*. If not, is any development in this area anticipated? Has there been any more general discussion by the relevant agency (or any other influential stakeholder) of the policy in your jurisdiction regarding resale price maintenance?

The Supreme Court's recent decision in *Leegin* ended the per se rule against minimum resale price maintenance under federal law, and for this reason, it has arguably had a significant impact in the US (see question 13). While the DoJ and the FTC have not issued a general statement of a change in enforcement policy in the aftermath of *Leegin*, the decision has in fact had an impact on their policies.

On 6 May 2008, for example, the FTC granted, in part, a petition from Nine West Group Inc, to modify a 2000 FTC order prohibiting the women's footwear company from fixing retail prices with dealers. The order was modified in light of *Leegin*, allowing Nine West to engage in resale price maintenance agreements with dealers while requiring the company to provide periodic reports on its use of resale price maintenance agreements to the FTC, so that the Commission can analyse the effects of Nine West's agreements on competition.

In addition, the FTC recently announced that it will hold a series of public workshop sessions to explore how best to distinguish between uses of resale price maintenance agreements that benefit consumers and those that do not. In particular, the FTC will examine when and whether particular market facts or conditions make it more or less likely that resale price maintenance will be pro-competitive or neutral, rather than anti-competitive. It is possible that the FTC will use the information it gathers from these workshops to issue guidelines on application of federal antitrust laws to resale price maintenance agreements.

State enforcement agencies, however, have not necessarily or uniformly embraced this change as it pertains to enforcement of their antitrust laws. Several state attorneys general have indicated their intent to pursue antitrust enforcement against anti-competitive resale price maintenance agreements under state antitrust laws. Since *Leegin*, New York and North Carolina have entered into consent decrees with companies concerning allegedly unlawful resale price maintenance policies (see *New York v Herman Miller Inc*, 08 CV 2977 (SDNY 2008); *North Carolina v McLeod Oil Co*, OS CVS 13975 (NC.Sup Ct 2007)).

Lastly, on 31 July 2007, the antitrust subcommittee of the Senate Judiciary Committee held a hearing on *Leegin* entitled, 'The *Leegin* Decision: The End of the Consumer Discounts or Good Antitrust Policy?' On 30 October 2007, Senators Kohl, Biden and Clinton introduced a bill to overrule *Leegin* (S 2261, 110th Congress, section 3 (2007)). The bill adds a new second sentence to section 1 of the Sherman Act, providing: 'Any contract, combination, conspiracy, or agreement setting a minimum price below which a product or service cannot be sold by a retailer, wholesaler, or distributor, shall violate this Act.' This legislation has been reintroduced in the new Congress as S 148, although its eventual passage remains far from certain.

**18** Have decisions relating to resale price maintenance addressed the possible links between such conduct and other forms of restraint? Have the decisions addressed the efficiencies that it is alleged can arise out of such restrictions?

Research has not uncovered any significant post-*Leegin* decisions involving the interrelation of resale price maintenance and other forms of restraint. In *Leegin*, however, the court identified several instances where resale price maintenance may warrant heightened scrutiny in an effort to ferret out potentially anticompetitive practices. For example, the court suggested that resale price maintenance

should be subject to increased scrutiny if a number of competing manufacturers in a single market adopt price restraints, because such circumstances may give rise to illegal manufacturer or retailer cartels. Likewise, the court explained that if a resale price maintenance agreement originated among retailers and was subsequently adopted by a manufacturer, there is an increased likelihood that the restraint would foster a retailer cartel or support a dominant, inefficient retailer.

**19** How is restricting the territory into which a buyer may resell contract products assessed under antitrust law? In what circumstances may a supplier require a buyer of its products not to resell the products in certain territories?

Territorial restrictions prohibit a distributor from selling outside an assigned territory. These restrictions may stifle intra-brand competition, but also simultaneously stimulate inter-brand competition. In light of the complex market impact of these vertical restrictions, the US Supreme Court, in *Continental TV Inc v GTE Sylvania Inc*, 433 US 36 (1977), concluded that territorial restraints should be reviewed under a rule-of-reason analysis. In order for a territorial restriction (and as referenced in question 20, a customer restriction) to be upheld under the rule of reason, the pro-competitive benefits of the restraint must offset any harm to competition. Courts have examined the purpose of the vertical restriction, the effect of such restriction in limiting competition in the relevant market, and, importantly, the market share of the supplier imposing the restraint in ascertaining the net impact on competition. So long as inter-brand competition is strong, courts typically find territorial restraints lawful under the rule of reason.

**20** Explain how restricting the customers to whom a buyer may resell contract products is assessed under antitrust law. In what circumstances may a supplier require a buyer not to resell products to certain resellers or end-consumers?

Customer restrictions of this nature are subject to the same rule-of-reason analysis detailed in question 19 regarding territorial restrictions.

**21** How is restricting the uses to which a buyer puts the contract products assessed under antitrust law?

A usage restriction will be analysed under the rule of reason in a manner similar to the analysis of territorial restraints set forth in question 19.

**22** How is restricting the buyer's ability to generate sales via the internet assessed under antitrust law? Have the agencies issued decisions or guidance in relation to restrictions on internet selling? If so, what are the key principles?

Research has not uncovered any recent agency decisions dealing with restrictions on internet selling.

**23** Briefly explain how agreements establishing 'selective' distribution systems are assessed differently under antitrust law.

Agreements establishing selective distribution systems are analysed under the rule of reason in a manner similar to the analysis of territorial restraints set forth in question 19.

**24** Are selective distribution systems more likely to comply with antitrust law where they relate to certain types of product? If so, which types of product and why?

As set forth in question 19, selective distribution systems are analysed under the rule of reason and research has uncovered no cases

establishing that selective distribution systems relating to a certain subcategory of products are more likely to comply with antitrust law than those applied to other products.

- 25** Regarding selective distribution systems, are restrictions on internet sales by approved distributors permitted? If so, in what circumstances? Must internet sales criteria mirror offline sales criteria or would discrepancies be permitted?

Restrictions on internet sales by approved distributors will be analysed under the rule of reason in a manner similar to other selective distribution systems. In order for a restriction on internet sales to be upheld under the rule of reason, the pro-competitive benefits of the restraint must offset any harm to competition.

- 26** Does the relevant agency take into account the possible cumulative restrictive effects of multiple selective distribution systems operating in the same market?

Pursuant to the rule-of-reason analysis under which selective distribution systems are analysed, the possible cumulative effect of overlapping selective distributive systems operating in the same market may be considered in assessing harm to competition.

- 27** Has the agency taken decisions dealing with the possible links between selective distribution systems and resale price maintenance policies? If so, what are the key principles in such decisions?

Research has not uncovered any recent agency decisions dealing with potential links between selective distribution systems and resale price maintenance policies.

- 28** How is restricting the buyer's ability to obtain the supplier's products from alternative sources assessed under antitrust law?

Research has uncovered no decisions challenging an agreement restraining a buyer's ability to purchase the supplier's products from alternative sources. Such a challenge would likely be analysed under the rule of reason.

- 29** Explain how restricting the buyer's ability to stock products competing with those supplied by the supplier under the agreement is assessed under antitrust law.

Exclusive dealing arrangements as described above may harm competition by foreclosing competitors of the supplier from marketing their products to that buyer. Exclusive dealing is subject to challenge under sections 1 and 2 of the Sherman Act, section 3 of the Clayton Act, and section 5 of the FTC Act. Because section 3 of the Clayton Act is limited to arrangements involving 'goods, wares, merchandise, machinery, supplies, or other commodities', when services or intangibles are involved, exclusive dealing can be challenged only under the Sherman Act or FTC Act. Exclusive dealing arrangements have not been considered to be per se unlawful and the courts and agencies have therefore analysed such conduct under the rule of reason. In conducting such analysis, the courts and agencies have considered a number of factors, the most important being, perhaps, the percentage of commerce foreclosed within a properly defined market, and the ultimate anti-competitive effects of such foreclosure.

- 30** How is requiring the buyer to purchase from the supplier a certain amount or minimum percentage of the contract products assessed under antitrust law?

Requirements contracts are analysed under the same standards as exclusive dealing arrangements (see question 29).

- 31** Explain how restricting the supplier's ability to supply to other resellers, or sell directly to consumers, is assessed under antitrust law.

Similar to the territorial restrictions discussed in question 19, exclusive distributorship arrangements are subject to the rule-of-reason analysis.

- 32** To what extent are franchise agreements incorporating licences of IPRs relating to trademarks or signs and know-how for the use and distribution of products assessed differently from 'simple' distribution agreements under antitrust law?

Both types of agreements are subject to rule-of-reason analysis. For instance, to prevent dilution of its trademark, a franchisor may impose strict regulations on a franchisee, such as on product packaging and labelling, sourcing for product ingredients, employee appearance, and appearance of the franchised facility. Typically, these restrictions do not run foul of federal antitrust laws because they are deemed not to unreasonably restrain trade.

- 33** Explain how a supplier's warranting to the buyer that it will supply the contract products on the terms applied to the supplier's most-favoured customer or that it will not supply the contract products on more favourable terms to other buyers is assessed under antitrust law. Would the analysis differ where the buyer commits to 'most favoured' terms in favour of the supplier?

Most-favoured-nations clauses (MFNs) have not been found illegal by the courts. In *Blue Cross & Blue Shield United v Marshfield Clinic*, 65 F3d 1406 (7th Cir 1995), cert denied, 516 US 1184 (1996), the Seventh Circuit rejected a challenge to an MFN clause, explaining that MFNs 'are standard devices by which buyers try to bargain for low prices, by getting the seller to agree to treat them as favorable as their other customers... and that is the sort of conduct that the antitrust laws seek to encourage. It is not price fixing.' MFNs, however, have led to a number of enforcement actions by the FTC and DoJ, some of which have resulted in consent decrees, on the theory that they encourage coordinated pricing or discourage price cutting to particular customers by forcing the seller to make the lower price available to one or more other customers.

#### Notifying agreements

- 34** Is there a formal procedure for notifying agreements containing vertical restraints to the agency? Is it necessary or advisable to notify it of any particular categories of agreement? If there is a formal notification procedure, how does it work? What type of ruling (if any) does the agency deliver at the end of the procedure? And how long does this take? Is a reasoned decision published at the end of the procedure?

No, there is no formal notification procedure.

#### Agency guidance

- 35** If there is no formal procedure for notification, is it possible to obtain guidance from the agency as to the antitrust assessment of a particular agreement in certain circumstances?

Parties considering a course of action may request advice from the FTC concerning their proposed activity (see 16 CFR, section 1.1 to 1.4 (2009)). Parties may seek advisory opinions for any proposed activity that is not hypothetical or the subject of a FTC investigation or proceeding and that does not require extensive investigation (see *id* at section 1.3). Formal advisory opinions issued by the FTC are provided only in matters involving either a substantial or novel question of law or fact or a significant public interest. (See *id* at

section 1.1(a)). The FTC staff may render advice in response to a request when an agency opinion would not be warranted (see *id* at section 1.1(b)). Staff opinions do not prejudice the FTC's ability to commence an enforcement proceeding (see *id* at 1.3(c)). In addition to issuing advisory opinions, the FTC promulgates industry guides often in conjunction with the DoJ. Industry guides do not have the force of law and are therefore not binding on the commission. Finally, the FTC advises parties with respect to future conduct through statements of enforcement policy which are statements directed at certain issues and industries.

While the DoJ does not issue advisory opinions, it will upon request review proposed business conduct and it may in its discretion state its present enforcement intention with respect to that proposed conduct. Such statements are known as business review letters. A request for a business review letter must be submitted in writing to the assistant attorney general who heads the DoJ Antitrust Division and set forth the relevant background information, including all relevant documents and detailed statements of any collateral or oral understandings (see 28 CFR, section 50.6 (2008)). The DoJ will decline to respond when the request pertains to ongoing conduct.

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### Complaints procedure for private parties

**36** Is there a procedure whereby private parties can complain to the agency about alleged vertical restraints?

A party who wishes to lodge a complaint with the FTC may make an 'application for complaint'. While there is no formal procedure for requesting action by the FTC, a complainant must submit to the FTC a signed statement setting forth in full the information necessary to apprise the FTC of the general nature of its grievance (see 16 CFR, section 2.2(b) (2009)). Parties wishing to register complaints with the DoJ may lodge complaints by letter, telephone, over the internet, or in person. The DoJ maintains an 'antitrust hotline' to accept telephone complaints. Sophisticated parties frequently retain counsel to lodge complaints with either agency.

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### Enforcement

**37** How frequently is antitrust law applied to vertical restraints by the agency? What are the main enforcement priorities regarding vertical agreements?

The FTC and DoJ have filed comparatively few vertical restraint cases in recent years. A recent example, however, is the DoJ's successful challenge to the exclusive dealing practices of a manufacturer of artificial teeth (see *US v Dentsply Int'l Inc*, 399 F3d 181 (3d Cir 2005), cert denied, 546 US 1089 (2006)). State attorneys general and private parties have been somewhat more active in challenging vertical restraints (see questions 41 and 42).

**38** What are the consequences of an infringement of antitrust law for the validity or enforceability of a contract containing prohibited vertical restraints?

An agreement found to be in restraint of trade is invalid as against public policy. However, where an agreement constitutes 'an intelligible economic transaction in itself', apart from any collateral agreement in restraint of trade, and enforcing the defendant's obligations would not 'make the courts a party to the carrying out of one of the very restraints forbidden by the Sherman Act', a contract containing a prohibited vertical restraint will be held enforceable (See *Kelly v Korsuga*, 358 US 516, 518-520 (1959); see also *Kaiser Steel Corp v Mullins*, 455 US 72 (1982)).

**39** May the agency impose penalties itself or must it petition the courts or another administrative or government agency? What sanctions and remedies can the agency or the courts impose when enforcing the prohibition of vertical restraints? What notable sanctions or remedies have been imposed? Can any trends be identified in this regard?

The FTC can institute enforcement proceedings under any of the laws it administers, so long as such a proceeding is in the public interest (see 16 CFR, section 2.31 (2009)). If the FTC believes that a person or company has violated the law, the commission may attempt to obtain voluntary compliance by entering into a consent order. If a consent agreement cannot be reached, the FTC may issue an administrative complaint. Section 5(b) of the FTC Act empowers the FTC, after notice and hearing, to issue an order requiring a respondent found to have engaged in unfair methods of competition to 'cease and desist' from such conduct (15 USC, section 45(b) (2008)). Section 5(l) of the FTC Act authorises the FTC to bring actions in federal district court for civil penalties of up to US\$11,000 per violation, or in the case of a continuing violation, US\$11,000 per day, against a party that violates the terms of a final FTC order (*id* at section 57a(a)(1)(B)). Section 13 of the FTC Act authorises the FTC to seek preliminary and other injunctive relief pending adjudication of its own administrative complaint (*id* at section 53). Additionally, section 13(b) of the FTC Act authorises the FTC in a 'proper case' to seek permanent injunctive relief against entities that have violated or threaten to violate any of the laws it administers. The FTC has successfully invoked its authority to obtain monetary equitable relief for violations of section 5 in suits for permanent injunction pursuant to section 13(b) of the FTC Act.

The DoJ has exclusive federal governmental authority to enforce the Sherman Act and shares with the FTC and other agencies the federal authority to enforce the Clayton Act, although it is unusual for the DoJ to seek criminal penalties in the vertical restraints area. Sections 1 and 2 of the Sherman Act confer upon the DoJ the authority to proceed against violations by criminal indictment or by civil complaint. Pursuant to section 4 of the Sherman Act and section 15 of the Clayton Act, the DoJ may seek to obtain from the courts injunctive relief 'to prevent and restrain violations' of the respective acts and direct the government 'to institute proceedings in equity to prevent and restrain such violations'. Pursuant to section 14A of the Clayton Act, the US acting through the DoJ may also bring suit to recover treble damages suffered by the US as a result of antitrust violations – *id* at section 15a. Finally, a party under investigation by the DoJ may enter into a consent decree with the agency. Procedures governing approval of consent decrees are set forth in the Tunney Act (15 USC, section 16(b)-(h) (2008)).

In vertical restraints cases, federal agencies have tended to focus their efforts on cases where injunctive relief was necessary or where the law might be clarified, as opposed to pursuing cases seeking monetary remedies.

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### Investigative powers of the agency

**40** What investigative powers does the agency have when enforcing the prohibition of vertical restraints?

The FTC may institute an investigation informally through a 'demand letter' which requests specific information. A party is under no legal obligation to comply with such requests. Additionally, the FTC may use a compulsory process in lieu of or in addition to voluntary means. Section 9 of the FTC Act provides that the FTC or its agents shall have access to any 'documentary evidence' in the possession of a party being investigated or proceeded against 'for the purpose of examination and copying' (*id* at section 49; 16 CFR, section 2.11 (2009)). Section 9 of the FTC Act gives the Commission power to subpoena the attendance and testimony of witnesses and the produc-

**Update and trends**

There remains interest among some in the US in revisiting the Supreme Court's recent *Leegin* decision and either reinstating the per se rule against minimum resale price maintenance agreements, or providing a more definite structure to the manner in which agencies and courts will apply the rule of reason to vertical price restraints. Along these lines, the FTC will be holding public workshops to discuss and receive public comment on potential approaches to analysing minimum resale price maintenance under the rule of reason, and certain state enforcement agencies have indicated their intent to continue to enforce prohibitions on vertical price-fixing under state laws. In addition, a bill has been introduced in the United States Senate that proposes, in effect, to overturn *Leegin*, though it is far from certain that the bill will be enacted into law.

tion of documentary evidence (15 USC, section 49 (2008)).

The most common investigative power utilised by the DoJ in conducting civil antitrust investigations is the civil investigative demand (CID). The Antitrust Civil Process Act (15 USC, sections 1311-1314 (2008)), authorises the DoJ to issue CIDs in connection with actual or prospective antitrust violations. A CID is a general discovery subpoena that may be issued to any person whom the attorney general or assistant attorney general has reason to believe may be in 'possession, custody or control' of material relevant to a civil investigation. A CID may compel production of documents, oral testimony or written answers to interrogatories.

**Private enforcement**

**41** To what extent is private enforcement possible? Can non-parties to agreements containing vertical restraints obtain declaratory judgments or injunctions and bring damages claims? Can the parties to agreements themselves bring damages claims? What remedies are available? How long should a company expect a private enforcement action to take?

Section 4 of the Clayton Act permits the recovery of treble damages by 'any person [...] injured in his business or property by reason of anything forbidden in the antitrust laws'. Section 16 of the Clayton Act similarly provides a private right of action for injunctive relief. While sections 4 and 16 of the Clayton Act permit a private right of action for violations arising under both the Sherman and Clayton Acts, it does not permit a private right of action under section 5 of the FTC Act. Both sections 4 and 16 of the Clayton Act provide that a successful plaintiff may recover reasonable attorneys' fees. The amount of time it takes to litigate a private enforcement action varies significantly depending upon the complexity and circumstances of the litigation.

A private plaintiff seeking antitrust damages must establish antitrust standing, which requires, among other things, that the plaintiff show that its alleged injury is of the type that the antitrust laws were designed to protect. With certain exceptions, an indirect purchaser (ie, a party that does not purchase directly from the defendant) is not deemed to have suffered antitrust injury and therefore is barred from bringing a private action for damages under section 4 of the Clayton Act (see *Illinois Brick v Illinois*, 431 US 720 (1971)).

Both parties and non-parties to agreements containing vertical restraints can bring damage claims so long as they successfully fulfil the requirements for standing.

**Other issues**

**42** Is there any unique point relating to the assessment of vertical restraints in your jurisdiction that is not covered above?

In addition to private and federal agency enforcement of vertical restraints, section 4(c) of the Clayton Act authorises the states through their respective attorneys general to bring a *parens patriae*

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action, defined as an action by which the state has standing to prosecute a lawsuit on behalf of a citizen or on behalf of natural persons residing in its state to secure treble damages arising from any violation under the Sherman Act. In pursuing treble damages, state attorneys general often coordinate their investigation and prosecution of antitrust matters with other states. Additionally, pursuant to section 16 of the Clayton Act, states may bring actions for injunctive relief in their common-law capacity as a *parens patriae* in order to forestall injury to the state's economy.

Within the past 10 years, the states have commenced a number of coordinated investigations involving allegations of resale price maintenance which have resulted in settlements providing for monetary and injunctive relief. Monetary settlements have ranged from as little as US\$7.2 million to as much as US\$143 million. However, the Supreme Court's decision in *Leegin* will likely diminish the frequency of such litigation for the foreseeable future.

In addition to their *parens patriae* authority, many states have passed legislation analogous to the federal antitrust laws. For example, New York's antitrust statute, known as the Donnelly Act, is modelled on the federal Sherman Act and generally outlaws anti-competitive restraints of trade. But New York's highest court has also determined that the Donnelly Act 'should generally be construed in light of Federal precedent and given a different interpretation only where State policy, differences in statutory language or the legislative history justifies such a result' (*Anheuser-Busch Inc v Abrams*, 71 NY 2d 327, 335 (1998)). Accordingly, New York and other states similarly situated which seek to enforce local antitrust laws concerning vertical restraints may face significant obstacles as a result of *Leegin*.

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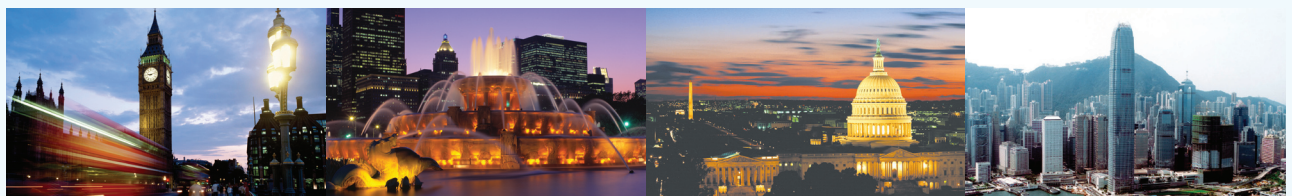
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