



# Vertical Agreements

The regulation of distribution practices  
in 41 jurisdictions worldwide

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Stephen Kinsella, Stephen Spinks and Patrick Harrison

Sidley Austin LLP

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## Antitrust law

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

The key source is article 81 of the EC Treaty. Article 81(1) prohibits agreements between undertakings that may affect trade between EU member states and have as their object or effect the prevention, restriction or distortion of competition within the EU. Article 81(2) of the EC Treaty renders such agreements void unless they satisfy the conditions for exemption under article 81(3): essentially, where the economic benefits of an agreement outweigh its anti-competitive effects.

In order to assist companies and their advisers in ensuring that their agreements meet the conditions for an ‘exemption’ under article 81(3), the European Commission’s Directorate General for Competition (Commission) has published two documents of particular relevance to the assessment of vertical restraints:

- Commission Regulation (EC) No. 2790/1999 (Vertical Block Exemption), providing that certain categories of vertical agreement will be treated as fulfilling the requirements for exemption; and
- non-binding Vertical Guidelines, setting out the manner in which the Vertical Block Exemption is to be applied and giving guidance on how vertical restraints falling outside the Vertical Block Exemption will be assessed.

Where a party to an agreement occupies a dominant position on one of the markets to which the agreement relates, article 82 of the EC Treaty (which regulates the conduct of dominant companies) will also be relevant to the antitrust assessment. However, conduct falling within article 82 EC is considered in the *Getting the Deal Through – Dominance* publication and is therefore not covered here.

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## 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?

In article 2(1) of the Vertical Block Exemption, vertical agreements are defined as: ‘agreements or concerted practices entered into between two or more undertakings each of which operates, for the purposes of the agreement, at a different level of the production or distribution chain, and relating to the conditions under which the parties may purchase, sell or resell certain goods or services’.

Vertical restraints are, put simply, restrictions on the competitive behaviour of a party that occur in the context of such vertical agreements. Examples of vertical restraints include: exclusive distribution, certain types of selective distribution, territorial protection, export restrictions, customer restrictions, resale price-fixing, exclusive purchase obligations and non-compete obligations.

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## Legal objective

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

One of the key identifying features of EC competition policy has been its pursuit of a variety of different goals. Although in the recent past, the Commission has openly stated its intention to focus increasingly on consumer welfare and the pursuit of strictly economic goals in its application of article 81, the supranational nature of the EU dictates that the Commission and the community courts have also prioritised the furtherance of a single, integrated European market.

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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 Commission’s Directorate General for Competition is the main administrative body responsible for applying article 81 at an EU level. However, since 1 May 2004, national courts and national competition authorities in each of the EU’s 27 member states also have jurisdiction to apply article 81 in its entirety (ie, including article 81(3)). At an EU level, the College of Commissioners (ie, the 27 commissioners appointed by the EU’s 27 member states) adopts infringement decisions under article 81. In practice, however, it is only at the very final stage of an infringement decision that the College of Commissioners is formally consulted. At all stages prior to that, decisions are driven by officials at the Directorate General for Competition.

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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?

Article 81 applies to agreements that ‘may affect trade between [EU] member states’. Where agreements do not affect trade between member states, but nonetheless have an impact on trade within a given EU member state, they may also be considered under that member state’s national competition rules (see relevant national chapters). The concept of ‘effect on trade between member states’ is interpreted broadly and includes ‘actual or potential’ and ‘direct or indirect’ effects (see the Commission’s Effect on Trade Notice).

For example, where vertical restraints are implemented in just a single member state they may also be capable of affecting trade between member states by imposing barriers to market entry for companies operating in other EU member states. The question of whether a given agreement will affect trade between member states has to be addressed on a case-by-case basis. However, the Commission’s Effect

on Trade Notice does clarify that, in principle, vertical agreements relating to products for which neither the supplier nor the buyer has a market share exceeding 5 per cent and for which the supplier does not generate EU-wide revenues exceeding €40 million should not, in general, be considered capable of having the requisite effect on trade.

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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?

Article 81 applies to ‘undertakings’. The term ‘undertaking’ can cover any kind of entity, regardless of its legal status or the way in which it is financed, provided such entity is engaged in an ‘economic activity’ when carrying out the activity in question. Thus, public entities may qualify as undertakings when carrying out certain of their more commercial functions and will therefore be subject to the provisions of article 81 in relation to those activities, but will be immune from the application of article 81 when fulfilling their public tasks.

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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.

The Commission has issued a Block Exemption Regulation on the application of article 81(3) to categories of vertical agreements and concerted practices in the motor vehicle sector.

The regulation creates a ‘safe harbour’ for certain motor vehicle distribution and repair agreements, exempting them from the prohibition laid down in article 81(1). For a recent example of the Commission’s enforcement practice in relation to vertical agreements in the motor vehicle sector, see its September 2007 press release on the decisions taken against DaimlerChrysler, Toyota, General Motors and Fiat. Other industry-specific Block Exemption Regulations exist but none of these is targeted specifically at vertical restraints.

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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.

In order for article 81 to apply, a vertical restraint must have an ‘appreciable’ effect on competition. The Commission has published a De Minimis notice setting out the circumstances in which agreements (including vertical agreements) will not be viewed by the Commission as infringing article 81(1).

The De Minimis notice provides that, absent certain hard-core restrictions such as price fixing or clauses granting absolute territorial protection, and absent parallel networks of similar agreements, the Commission will not consider that vertical agreements have an ‘appreciable’ effect on competition provided the parties’ market shares for the products in question do not exceed 15 per cent. Although binding on the Commission itself, the De Minimis notice is not binding on member state courts or competition authorities when applying article 81.

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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?

The Commission and the community courts have consistently interpreted the concept of ‘agreement’ in a broad manner. In the ECJ’s

2004 judgment in *Bayer v Commission*, it was held that, in order for a restriction to be reviewed under article 81, there must be a concurrence of wills among the two parties to conclude the relevant restriction. As regards the effect of a given restraint, the Commission will normally take into account the cumulative impact of a supplier’s agreements when assessing the impact of vertical restraints on competition in a given market. In addition, the assessment of a given vertical restraint can vary depending on the vertical restraints concluded by that supplier’s competitors. If the vertical restraints imposed by the supplier and its competitors have the cumulative effect of foreclosing market access, then any vertical restraints that contribute significantly to that foreclosure may be found to infringe article 81. This kind of analysis has frequently been employed in relation to the brewing industry.

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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)?

Article 81 does not apply to agreements between companies that form part of a single economic entity. In determining whether one company is part of the same economic entity as another, the community courts, in cases such as *Vihov Commission*, have focused on the concept of ‘autonomy’. Where companies do not enjoy real autonomy in determining their course of action on the market, but instead carry out the instructions issued to them by their parent company, they will be seen as part of the same economic entity as the parent company. However, the case law of the community courts is not clear on exactly what degree of control is necessary in order for a company to be considered related to another. In certain cases, the Commission has not allowed the defence of single economic entity. For example, in the case of *Gosme/Martell – DMP*, the Commission found that DMP, a 50/50 joint venture between Martell and Piper-Heidsieck, was a separate economic entity to Martell, so that article 81 applied to vertical restraints concluded between Martell and DMP.

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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?

In general, article 81 will not apply to any agreement between a ‘principal’ and its ‘genuine agent’ insofar as the agreement relates to contracts negotiated or concluded by the agent for its principal. However, the Commission’s Vertical Guidelines explain that, where a genuine agency agreement contains, for example, a clause preventing the agent from acting for competitors of the principal, article 81 may apply if the arrangement leads to foreclosure of the principal’s competitors from the market for the products in question. Article 81 may also apply where an agency agreement goes beyond ‘genuine agency’ and includes provisions according to which an agent accepts non-negligible commercial and financial risks (of the kind normally accepted by a distributor) in selling the principal’s contract products. The exact degree of risk that an agent can take without article 81 being deemed applicable to its relationship with a principal will largely be a question of fact. The judgments of the CFI in *Daimler Chrysler v Commission* and the ECJ in *CEPSA v Compania de Petroleos SA* provide guidance.

It should also be noted that, where agency agreements are concluded, agents in the EU may benefit from significant protection under the EU’s Commercial Agents Directive and the member state-level implementing measures adopted in relation thereto.

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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)?

Where the ‘centre of gravity’ of a given vertical agreement is the licensing of IPRs, EC competition rules are applied somewhat differently. The relevant considerations go beyond the scope of this publication and include the application of the Commission’s Technology Transfer Block Exemption. The Vertical Block Exemption and the Commission’s Vertical Guidelines will apply to agreements granting IPRs only where such grants are not the ‘primary object’ of the agreement, and provided that the IPRs relate to the use, sale or resale of the contract products by the buyer or its customers.

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**Analytical framework for assessment**

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

Article 81 may apply to vertical restraints (as defined in question 2) provided they are NOT:

- concluded by public entities carrying out non-economic activities (see question 6);
- ‘genuine agency’ arrangements (in most cases – see question 11); or
- concluded among related companies (see question 10).

If none of the above criteria is met, then an agreement containing a vertical restraint may fall to be reviewed under article 81. There are a series of steps to be taken in determining whether and how article 81 may apply to a vertical restraint.

First, does the agreement lead to an appreciable effect on trade between member states of the EU? (See question 5.) If there is no effect on trade between member states, then article 81 will not apply (but member state level competition rules may apply – see national chapters).

Second, if there is an appreciable effect on trade between member states, does the vertical agreement contain a hard-core restraint? If the agreement contains a hard-core restraint, it:

- will not benefit from the safe harbour created by the Commission’s De Minimis notice;
- will not benefit from the Vertical Block Exemption’s safe harbour; and
- is highly unlikely to satisfy the conditions of article 81(3).

Hard-core vertical restraints are: the fixing of minimum resale prices; certain types of restriction on the customers to whom or the territory into which a buyer can sell the contract goods; restrictions on members of a selective distribution system supplying each other or end users; and restrictions on component suppliers selling components as spare parts to the buyer’s finished product.

Third, if the agreement contains no hard-core vertical restraints, are the parties’ positions on the relevant markets sufficiently minor such that the Commission’s De Minimis notice may apply. If the criteria of the De Minimis notice are met (question 8), then the Commission will not consider that the agreement falls within article 81(1) as it does not ‘appreciably’ restrict competition.

Fourth, does the agreement fall within the Vertical Block Exemption? (question 15). If the agreement falls within the scope of the Vertical Block Exemption, it will benefit from a ‘safe harbour’. This ‘safe harbour’ will apply in relation to decisions taken not only by the Commission but also by member state competition authorities and courts in their application of article 81.

Finally, where the vertical agreement does have an effect on trade

between member states and does not fall within the terms of the Commission’s De Minimis notice or the Commission’s Vertical Block Exemption, it is necessary to conduct an ‘individual assessment’ of the agreement in order to determine whether it falls within article 81(1) and, if so, whether the conditions for an exemption under article 81(3) are satisfied.

**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?

The Commission takes an increasingly economic approach when assessing individual restraints. As such, it takes into consideration a number of factors in its analysis. The factors routinely taken into account in determining whether restraints in vertical agreements fall within article 81(1) are set out in the Commission’s Vertical Guidelines, namely: supplier market position; buyer market position; competitor market positions; barriers to entry; market maturity; the level of trade affected by the agreement; and the nature of the product concerned. Where an agreement falls within article 81(1), the Vertical Guidelines also set out the issues that will determine whether an agreement satisfies article 81(3), namely: whether the agreement will lead to efficiencies accruing to consumers, rather than to the parties themselves; whether the restrictions imposed are greater than necessary to achieve the efficiency in question; and, finally, whether the restriction affords the parties the possibility of eliminating competition in respect of a substantial part of the products in question. Naturally, the positions of other suppliers and/or buyers will be particularly relevant in determining the last of these issues.

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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.

The Commission’s Vertical Block Exemption provides a ‘safe harbour’ for certain agreements containing vertical restraints. The ‘safe harbour’ means that, if an agreement satisfies the conditions of the Vertical Block Exemption, neither the Commission nor the member state competition authorities or courts can determine that the agreement infringes article 81, unless a prior decision (having only prospective effect) is taken to ‘withdraw’ the benefit of the Vertical Block Exemption from the agreement.

The Vertical Block Exemption requires that the agreement in question be vertical (ie, the parties operate at different levels of the market ‘for the purposes of the agreement’). Parties to an agreement who compete on other product markets, but not the contract product market, can benefit from the Vertical Block Exemption, provided they are not both ‘actual or potential suppliers’ in the contract product market.

The Vertical Block Exemption will not apply where the agreement falls within the scope of another of the Commission’s Block Exemption Regulations (notably, the Technology Transfer Block Exemption, see question 12).

In general, the supplier’s market share must not exceed 30 per cent on the relevant market(s) for the products in question in the most recent calendar year prior to commencement of the agreement. (In the case of supply to only one distributor for the entire EU, it is the buyer’s market share that must not exceed 30 per cent.) Where the relevant market shares exceed 30 per cent during the course of the agreement, the Vertical Block Exemption still applies for a certain time but, if the market shares remain above 30 per cent, then the Vertical Block Exemption will cease to apply to the agreement.

Where the agreement contains any hardcore restraints (see question 13), the 'safe harbour' created by the Vertical Block Exemption will not apply at all. This means that lesser restraints in the agreement that would otherwise have benefited from the certainty of protection provided by the Vertical Block Exemption will not be able to benefit from such protection.

Finally, if certain lesser restraints are included in the vertical agreement (ie, non-compete clauses exceeding five years in duration, post-term non-compete obligations, and restrictions on members of a selective distribution system being obliged not to stock the products of an identified competitor of the supplier) these restraints themselves may be unenforceable. However, where these lesser restraints are included, they will not prevent the rest of the agreement benefiting from the Vertical Block Exemption's safe harbour.

Note, however, that the Vertical Block Exemption expires on 31 May 2010. The Commission initiated a consultation in late 2008 and will likely decide in the course of 2009 how best to renew or amend the Vertical Block Exemption. Amendments may be proposed by the Commission, especially in relation to online trading where it has set up a high-level roundtable group.

### Types of restraint

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

The Commission considers that the setting of minimum resale prices constitutes a hard-core restriction of competition. As such, it will almost always fall within article 81(1), will fall outside the safe harbours of the De Minimis notice and the Vertical Block Exemption and is generally considered unlikely to qualify for exemption under article 81(3).

Setting maximum resale prices or 'recommended' resale prices, from which the distributor is permitted to deviate without penalty, may be permissible, though the Commission views such arrangements with suspicion on concentrated markets, as it considers that such practices may facilitate collusion among suppliers.

- 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 prohibition on the setting of minimum resale prices is rendered a hardcore restriction by virtue of the Commission's Vertical Block Exemption. However, the Vertical Block Exemption expires in 2010, at which point it is likely to be renewed and amended as appropriate. In preparation for the Commission's Vertical Block Exemption review, a number of articles have been authored on the likely impact of the *Leegin* judgment in the EU and on the desirability of the preservation of resale price maintenance as a hard-core restriction. One particularly interesting article on the subject, by Commission official Luc Peepkorn, points out that hard-core restrictions in the EU are not the same as 'per se' infringements in the US (as efficiency arguments can be advanced in support of hard-core restrictions) and concludes that the economic arguments advanced in favour of resale price maintenance do not appear very strong. (See *European Competition Journal*, June 2008, p201.) The Commission may elaborate during 2009 on its position in relation to resale price maintenance in the context of its Vertical Block Exemption consultation.

- 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?

Though somewhat limited in scope, the case law of the community courts does provide some guidance in these areas. In particular, in the 2008 *CEPSA v Compania de Petroleos SA* case, the ECJ ruled that, in the context of an exclusive distribution agreement, if a supplier fixed the retail price at which the contract products were resold, the agreement would not benefit from the safe harbour created by the Vertical Block Exemption and, in the absence of any efficiency arguments under article 81(3) the agreement would be void under article 81(2). Thus, the ECJ accepted the possibility that successful efficiency arguments could be raised in relation to the fixing of retail prices.

However, such efficiency arguments have not yet been successful before the Commission. Rather, the Commission has highlighted the possible links between resale price maintenance and other forms of restraint. In its 2000 decision in *Nathan-Bricoloux*, the Commission noted that the restriction of the freedom of distributors to sell outside their exclusive territory was supplemented and reinforced by the distributor's limited ability to grant discounts or rebates and so determine the final resale price of Nathan-branded goods.

In 2002, the Commission received complaints about a suspected concerted embargo on the supply of books to internet retailers selling to final consumers in Germany at prices far below those set by the German book price fixing system. The Commission accepted undertakings from the German publishers' and booksellers' association and some German publishers guaranteeing retailers' freedom to sell to consumers in Germany over the internet. In its 2003 *Yamaha* decision, the Commission noted that the distributor agreements in question, 'by restricting sales outside the territories and limiting the dealer's ability to determine its resale prices, were complementary and pursued the same object of artificially maintaining different price levels in different countries'.

- 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?

In general, export restrictions that prevent a buyer selling the contract products from one EU member state into another are among the most serious infringements of article 81, attracting Commission fines of €102 million in 1998 for car manufacturer Volkswagen and €149 million in 2002 for computer games manufacturer Nintendo. The Commission has also been particularly vigorous in its enforcement activities in relation to territorial sales restrictions in the gas sector. Its 2007 settlement with Algerian gas producer Sonatrach followed similar actions against Gazprom in relation to its distribution contracts with ENI in Italy and OMV in Austria.

As territorial restrictions can lead to market partitioning, the Commission has tended to see such restraints as hardcore restraints that will almost always fall within article 81(1), will fall outside the safe harbours of the De Minimis notice and the Vertical Block Exemption and will hardly ever qualify for exemption under article 81(3).

There is one exception to this. Where a supplier sets up a network of exclusive distributorships and prevents each buyer from actively selling into a territory granted exclusively to another buyer (or reserved to the supplier itself), the Commission has accepted that this may lead to an increase in inter-brand competition. Provided the other conditions of the Vertical Block Exemption are met (including supplier's market share below 30 per cent), and provided the restrictions relate only to 'active' sales (ie, they do not cover 'passive' or

unsolicited sales) into territories granted on an exclusive basis to another buyer or to the supplier itself, such arrangements will fall within the safe harbour. Where restrictions on active sales into territories reserved exclusively to another buyer, or the supplier itself, are imposed by suppliers having market shares in excess of 30 per cent, such arrangements may still qualify for individual exemption under article 81(3). In the Commission's late 2008 Issues Paper in relation to online commerce published as part of the review of the Vertical Block Exemption, the Commission raised questions about whether a distinction between active and passive sales was appropriate in relation to the internet. The Commission may develop its policy in this regard during 2009.

**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 give rise to issues similar to those arising in territorial restrictions (see question 19) and tend to be viewed by the Commission as hardcore restrictions. As such, limitations on a buyer's sales to particular classes of customer will almost always fall within article 81(1), will fall outside the safe harbours of the De Minimis notice and the Vertical Block Exemption and will hardly ever qualify for exemption under article 81(3). There are certain key exceptions to this rule.

First, where the restriction applies only to active sales to customers of a class granted exclusively to another buyer (or reserved to the supplier itself), the arrangement may fall within the Vertical Block Exemption's safe harbour, provided the various conditions are met (including supplier's market share below 30 per cent). However, according to the Commission's Vertical Guidelines, where such restrictions are imposed by suppliers having a market share in excess of 30 per cent, they are unlikely to qualify for individual exemption under article 81(3).

Second, restrictions on a buyer's ability to sell components, supplied for the purposes of incorporation, to customers who would use them to manufacture the same type of products as those produced by the supplier may also fall within the Vertical Block Exemption's safe harbour, as may restrictions on a wholesaler selling direct to end users.

Third, certain objectively justifiable customer restrictions will be permitted. For example, clauses preventing sales of medicines to children, will not fall within article 81(1).

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

Objectively justifiable restrictions on the uses to which a buyer (or subsequent buyer) puts the contract goods are permissible and will not fall within article 81(1). However, for such restrictions to be objectively justifiable, the supplier would be likely to have to impose the same restrictions on all buyers and adhere to such restrictions itself.

**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?

No specific mention is made of internet sales in the Vertical Block Exemption. In its Vertical Guidelines, the Commission states that buyers in exclusive or selective distribution networks should not be prevented from advertising or selling using the internet. In its 2003 Yamaha decision, the Commission condemned as anti-competitive an

obligation imposed on dealers to contact Yamaha before exporting goods sold via the internet. The Commission considered the clause to be a hardcore restriction, the effect of such restriction being to discourage dealers in one member state from exporting products to other member states. However, despite the significant increase in the sophistication, value and scope of internet commerce in the EU, there has been comparatively little recent enforcement of the Vertical Guidelines' provisions on internet sales restrictions. In late 2008, as part of its scheduled review of the Vertical Block Exemption and Vertical Guidelines, the Commission established a roundtable on online commerce and published an issues paper requesting comments on how various vertical restraints should be regulated in the online environment. At the time of writing, the Commission's concerns appear focussed on blanket internet sales bans and requirements that buyers maintain significant 'bricks and mortar' premises in addition to any online stores. However, it remains to be seen what, if any, developments emerge from the Commission's review.

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

Following the judgment of the ECJ in *Metro v Commission*, selective distribution systems will fall outside article 81(1) where distributors are selected on objective criteria of a purely qualitative nature. In order to fall outside article 81(1):

- the contract products must be of a kind necessitating selective distribution (eg, technically complex products where after-sales service is of paramount importance and products where brand image is of particular importance);
- the criteria by which buyers are selected must be objective; and
- the restrictions imposed must not go beyond that which is necessary to protect the quality and image of the product in question.

Where selective distribution systems do not satisfy the above criteria, they will fall within article 81(1) but may benefit from a safe harbour under the Commission's De Minimis notice or the Vertical Block Exemption, provided they do not incorporate certain further restraints. In particular, such systems may benefit from exemption under the Vertical Block Exemption provided:

- resale prices are not fixed;
- there are no restrictions on active or passive sales to end users; and
- there are no restrictions on cross-supplies among members of the system.

Separately, the Commission's Vertical Guidelines suggest that members of a selective distribution system must not be prevented from generating sales via the internet (though note that this issue is among the topics for consideration in the context of the Commission's online commerce Roundtable (see question 22)). In addition, where selective distribution systems incorporate obligations on members not to stock the products of an identified competitor of the supplier, this particular obligation itself may be unenforceable. However, this last restriction should not affect the ability of the system overall to benefit from the safe harbour.

Certain restrictions are expressly permitted, including the restriction of active or passive sales to non-members of the network.

**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?

According to the ECJ's judgment in *Metro v Commission*, in purely qualitative selective distribution systems, restrictions may fall outside

the prohibition in article 81(1) where the contract products necessitate after-sales service or where brand image is of particular importance. In addition, the Commission states in its Vertical Guidelines that the nature of the contract products may be relevant to the assessment of efficiencies under article 81(3), to be considered where selective distribution systems fall within the prohibition under article 81(1). In particular, the Commission notes that efficiency arguments under article 81(3) may be stronger in relation to new or complex products or products whose qualities are difficult to judge either before, or immediately after, consumption. Additionally, the Commission has recognised the need for selective distribution in relation to newspapers, as newspapers can only be sold during a limited time period.

**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?

The Commission's Vertical Guidelines state that: 'in a selective distribution system the dealer should be free to advertise and sell with the help of the internet.' However, this should likely be read in the light of an earlier section of the Vertical Guidelines, which states that: 'the supplier may require quality standards for the use of the internet site to resell his goods.' The Commission's Guidelines are silent on specifics as to the nature of any restrictions that might be permissible in this regard. In its late 2008 online commerce Issues Paper, the Commission has opened a consultation on what internet sales policies should be considered anti-competitive. The results of the consultation – and the discussions on the same issue by the Commission's online commerce Roundtable – will likely feed into the review of the Vertical Block Exemption (see Boxout updates and trends).

The Commission took a number of internet-related selective distribution cases in the years immediately after the publication in 2000 of its Vertical Guidelines. In its 2001 informal clearance of YSL's selective distribution system, the Commission appeared to accept a ban on internet-only sellers. However, in other cases, including B&W Loudspeaker (2002), the Commission was more hostile toward internet sales restrictions in the context of selective distribution systems. It is expected that the Commission's current consultation – which asks, inter alia, whether blanket internet sales bans should be permitted and whether consumers benefit from suppliers insisting that their appointed distributors have a 'bricks and mortar' outlet – will lead to greater clarity in this area.

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

Yes. The Commission's Vertical Guidelines state that '[p]ossible negative effects of vertical restraints are reinforced when several suppliers and their buyers organise their trade in a similar way. These so-called cumulative effects may be a problem in a number of sectors'. In Peugeot (1986), the Commission noted that the restrictive effects of an agreement may be 'magnified by the existence of similar exclusive and selective distribution systems operated by other vehicle manufacturers'. This followed the approach taken by the ECJ in *Metro v Commission* in which the Court pointed to the prevalence of selective distribution networks across the relevant market as being among the criteria for determining whether a given network creates a restriction of competition within article 81(1).

The Commission's Vertical Guidelines also note that in relation to individual networks of selective distribution, cumulative effects will likely not be a factor in and of themselves where the share of the market covered by selective distribution is less than 50 per cent, or where the market covered by selective distribution is greater than

50 per cent, but the five largest suppliers have an aggregate market share of less than 50 per cent.

**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?

The Commission has taken a number of decisions imposing fines for resale price maintenance practices in the context of selective distribution systems. In 2003, the Commission imposed a fine of €2.56 million on Yamaha for, inter alia, fixing the resale prices charged by certain of its appointed distributors. Similarly, in its 2002 assessment of B&W Loudspeaker's selective distribution system, the Commission insisted on the removal of provisions that it considered imposed minimum resale prices by prohibiting 'bait pricing' (ie, prices which would entice customers to the sales outlet). In addition, a number of Commission decisions and Court judgments have dealt with resale price maintenance allegations in selective distribution networks in the automotive industry. For example, in a 2005 judgment, the CFI upheld the part of a Commission fine on Daimler Chrysler (€9.8 million of the overall fine of €72 million) that related to resale price maintenance within Daimler Chrysler's selective distribution network. The CFI was of the view that Daimler Chrysler had entered into agreements with its Belgian dealers limiting the rebates on the Mercedes E-Class and had restricted supplies to dealers granting rebates higher than the agreed 3 per cent maximum.

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

Such an arrangement may raise concerns regarding market partitioning. Where the supplier insists that a given buyer must buy all of its requirements of the supplier's products from, for example, the supplier's local subsidiary, this may prevent the ordinary arbitraging that would otherwise occur. On its own, however, 'exclusive purchasing' will only fall within article 81(1) where the parties have a significant market share and the restrictions are of long duration. Further, where the supplier has a market share of 30 per cent or less, the restriction will benefit from the safe harbour of the Vertical Block Exemption, regardless of duration.

According to the Commission's Guidelines, 'exclusive purchasing' is most likely to contribute to an infringement of article 81 where it is combined with other practices, such as selective distribution or exclusive distribution. Where combined with selective distribution (see question 23), an exclusive purchasing obligation would have the effect of preventing the members of the system from cross-supplying to each other and would therefore constitute a hard-core restriction, infringing article 81.

**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.

An obligation on the buyer not to manufacture or stock products competing with the contract products (non-compete) may fall within article 81(1), though this will depend on the exact effects of the restriction in question which will be determined by reference, inter alia, to the duration of the restraint, the market position of the parties and the ease or difficulty of market entry for other potential suppliers.

The Commission recognises that such clauses can be pro-competitive because, for example, they give a guarantee of ensured sales to the supplier and a guarantee of continuous supply to the buyer. As such, provided non-compete clauses do not have a duration exceeding five years, they may benefit from the safe harbour under

the Vertical Block Exemption (if the other criteria for its application are met). If the criteria for the application of the Vertical Block Exemption are not met, non-compete clauses may nevertheless fall outside the scope of article 81(1) or, alternatively, may satisfy the conditions for exemption under article 81(3), depending on the market positions of the parties, the extent and duration of the clause, barriers to entry and the level of countervailing buyer power.

Post-term non-compete provisions are subject to a similar analysis and those with a duration of no more than one year following termination of the contract will benefit from the safe harbour under the Vertical Block Exemption, provided certain criteria are satisfied.

**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?

The Commission considers such clauses to be akin to non-compete clauses, effectively restricting the ability of the buyer to stock products competing with the contract products (see question 29). They are therefore subject to a similar antitrust assessment. In particular, the Commission identifies as equivalent to a non-compete obligation, the following:

- obligations on the buyer to purchase 80 per cent or more of its requirements of the products in question from the supplier;
- obligations to purchase minimum volumes amounting to substantially all of the buyer's requirements (quantity forcing);
- obligations to stock complete ranges of the supplier's products; and
- various pricing practices including quantity discounts and non-linear pricing (under which the more a buyer buys, the lower the price).

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

In an exclusive distribution network, as a corollary of limiting the buyer's ability actively to sell the contract products into other exclusively allocated territories, the supplier often agrees: not to supply the products in question directly itself; and not to sell the products in question to other buyers for resale in the assigned territory. Although the Commission's Vertical Guidelines do not deal separately with the restrictions imposed on the supplier in this kind of arrangement, they do acknowledge that the restrictions on the supplier and the buyer 'usually' go hand in hand. Such systems should be assessed in accordance with the framework set out at questions 19 and 20 above.

However, there are two supplier-specific restrictions that are identified in the Commission's Vertical Block Exemption. The first is a restriction on a component supplier from selling components as spare parts to end-users or to repairers that are not entrusted by the buyer with the repair or servicing of the buyer's products. This is identified as a hardcore restriction and, as such, will almost always fall within article 81(1), will fall outside the safe harbours of the De Minimis notice and the Vertical Block Exemption, and will hardly ever qualify for exemption under article 81(3).

The second supplier restriction is termed 'exclusive supply' and covers the situation in which a supplier agrees to supply only to one buyer in the entire EU. The main anti-competitive effect of such arrangements is the potential foreclosure of competing buyers, rather than competing suppliers. Therefore, this is the only instance in which the buyer's market share is of primary importance. If the buyer has a market share of less than 30 per cent, the agreement will benefit from exemption under the Vertical Block Exemption, provided the other criteria for its application are met. Where the buyer has a market share in excess of 30 per cent, the Commission's Vertical Guidelines

give an overview of the factors that will be relevant in determining whether the restriction falls within article 81(1) and, if so, whether it might qualify for exemption under article 81(3).

**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?

Where the licensing of the franchiser's IPRs is related to the use, sale or resale of the contract products, the Commission's Vertical Guidelines state that franchise agreements will tend to be classed as vertical agreements and so will be subject to an assessment similar to that conducted in relation to other vertical agreements.

The following obligations imposed on the franchisee will not prevent the application of the safe harbour created by the Vertical Block Exemption (provided the various other conditions for its application are satisfied):

- an obligation not to compete with the franchiser's business;
- an obligation not to buy a stake in a competing franchiser;
- an obligation not to disclose the franchiser's know-how;
- an obligation to license to other franchisees any know-how developed in relation to the exploitation of the franchise;
- an obligation to assist in the protection of the franchiser's IPRs;
- an obligation only to use the know-how for the purposes of exploiting the franchise; and
- an obligation not to assign the IPRs without the franchiser's consent.

Where the franchiser's market share exceeds 30 per cent, or the franchise arrangements contain other vertical restraints such as exclusive distribution or non-compete obligations these obligations will be assessed in line with the analyses set out above (questions 19 and 29). However, the Commission's Vertical Guidelines explain that, 'the more important the transfer of know-how, the more easily the vertical restraints fulfil the conditions for exemption [under article 81(3)]'.

**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?

It is not clear whether such a restriction – in isolation – will constitute a restriction falling within article 81(1). In the event that such a restriction is deemed to fall within article 81(1), it would nonetheless fall within the safe harbour created by the Commission's Vertical Block Exemption, provided the other criteria for its application are met.

However, the Commission has suggested that in sectors where it considers market power to be concentrated among relatively few suppliers (including films and reinsurance), and where equivalent clauses operate in favour of the supplier (ie, where the buyer warrants to the supplier that, if it pays one of the supplier's competitors more for the same product, it will pay that same higher price to the supplier) such arrangements may increase the risk of price coordination.



### Update and trends

A consultation on a new Vertical Block Exemption Regulation is expected to take place in 2009 before the expiry in May 2010 of the current Vertical Block Exemption Regulation. The Commission is expected to issue a renewed Vertical Block Exemption, perhaps with a number of modifications, in late 2009 or early 2010. In addition, the Commission will likely issue renewed Vertical Guidelines and an updated version of the sector-specific Motor Vehicle Block Exemption Regulation. In the context of the renewal of the Vertical

Block Exemption and the review of the Vertical Guidelines, and given the increased importance of online commerce within the EU, the Commission published an Issues Paper in 2008 inviting stakeholder comment on how the EU's competition rules ought properly regulate internet sales restrictions. The results of this consultation will likely be taken into consideration in the Commission's wider consultation on the Vertical Block Exemption itself.

### 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?

The Commission abolished its formal prior-notification system as part of the 'modernisation' reforms implemented by Regulation 1/2003 on 1 May 2004. Subject to the possibility of making requests for informal guidance in novel cases (question 35) a notification of a vertical agreement is therefore neither necessary nor, in general, advisable.

### 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?

The Commission's Informal Guidance notice sets out the circumstances in which it will advise parties on the likely assessment of an agreement under article 81.

However, the Commission is highly selective in choosing the arrangements in relation to which it will give informal guidance and, given the existence of the Vertical Block Exemption and the Vertical Guidelines, it is unlikely that the Commission would issue individual guidance in relation to vertical restraints.

### Complaints procedure for private parties

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

Yes. Private parties showing a legitimate interest (those actually or potentially suffering damage as a result of the conduct in question) can file a complaint with the Commission either formally (on the Commission's form C) or informally (including orally or anonymously). The submission of a formal complaint ties the Commission to responding within a given time (in principle, four months). The community courts have long held that the Commission has a wide discretion in choosing which complaints to pursue.

### Enforcement

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

In the eight years from 1 January 2001 to 1 January 2009, the Commission took around 15 vertical restraints infringement decisions under article 81. (This includes only cases in which the Commission:

- focused its enforcement on article 81, as opposed to article 82;
- focused its enforcement on the vertical aspects of practices, rather

than any horizontal aspects; and

- either took a formal infringement decision or identified infringements but reached formal settlement agreements with the parties involved.)

Broadly speaking, the Commission's enforcement has focused on territorial and resale price restrictions.

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

Under article 81(2), restrictions of competition infringing article 81(1) and not qualifying for exemption under article 81(3) are rendered null and void. The exact consequences of a finding of voidness will depend on the text of the agreement itself and on the provisions of the applicable national law of contract regarding severability. There are two main alternative consequences – either the entire agreement is void and unenforceable or the prohibited restriction alone is void and unenforceable.

**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?

Under Regulation 1/2003, the Commission itself has the ability to impose fines of up to 10 per cent of the worldwide group revenues of the infringing party (or parties) without needing to have recourse to any court or government agency. Such a decision can be appealed to the community courts.

In the eight years from 1 January 2001 to 1 January 2009, the Commission imposed the following fines on the following companies in cases relating to vertical restraints (some of which were reduced or overturned on appeal): Peugeot – €45 million; Topps – €1.6 million; Yamaha – €2.6 million; Nintendo – €149 million; DaimlerChrysler – €72 million; Volkswagen – €31 million. In a number of cases, the Commission did not impose fines but instead required the companies to introduce behavioural or structural remedies, or both, for example:

- in April 2006 the Commission required Repsol to open up certain long-term exclusive supply contracts with Spanish service stations;
- in May 2004 the Commission reached a settlement with Porsche to end the tying of after sales service provision to an obligation to sell new cars; and
- in April 2003 the Commission approved supply agreements between Interbrew and pubs, restaurants and hotels located in Belgium, on the condition that Interbrew amended the agreements to offer its brewer competitors access to the outlets in question.

With regard to recent trends, while the Commission still actively enforces its rules on vertical restraints, especially in the motor vehicle sector, it is fair to suggest that market liberalisation, the reduction of anti-competitive state aid and the fight against cartels have been higher enforcement priorities in recent years.

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#### Investigative powers of the agency

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

Under Regulation 1/2003, the main investigative powers of the Commission are to request (and ultimately require) the production of documents and to conduct announced or unannounced inspections (ie, dawn raids) of business premises and employees' homes and cars. In carrying out such inspections, the Commission is often assisted by the national competition authorities of the member states in which the inspections take place.

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#### 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?

Although the Commission has launched several initiatives in order to improve the availability of damages actions for breaches of the EC competition rules, private enforcement is still in its infancy. Private damages actions cannot be brought before the Commission or before the community courts and must instead be brought in the relevant

courts of the member states having jurisdiction to hear the case in question. National rules on jurisdiction, recovery of legal costs, remedies and who can bring a claim vary widely across the EU, with certain jurisdictions, such as the UK, being more claimant-friendly than others. The key case before the community courts is *Courage v Crehan*, a case referred from the UK courts, in which the ECJ states that private parties must be able to claim damages in relation to infringements of article 81. The ECJ also clarified that parties to infringing agreements are themselves able to claim damages if, as a result of their weak bargaining positions, they cannot be said to be responsible for the infringement.

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#### Other issues

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

The most significant points of the EU's system for the regulation of vertical restraints are:

- its largely formalistic approach (including, notably, the application of the Vertical Block Exemption which now stands as something of an anathema in a global antitrust environment dominated by guidelines, other 'soft laws' and more effects-based, economic assessments);
- the importance it attaches to competition law as a tool for assisting in the development of the EU's single market, as reflected in its decisions in cases such as Volkswagen and Nintendo; and
- the fact that the jurisprudence of the community courts concerning the application of EU competition rules is binding on national-level enforcement agencies and courts in the EU's 27 member states.

## Sidley Austin LLP

**Stephen Kinsella**  
**Stephen Spinks**  
**Patrick Harrison**

**skinsella@sidley.com**  
**sspinks@sidley.com**  
**pharrison@sidley.com**

London:  
 Woolgate Exchange  
 25 Basinghall Street  
 London EC2V 5HA  
 United Kingdom  
 Tel: +44 207 360 3600  
 Fax: +44 207626 7937

Brussels:  
 Square de Meeus, 35  
 B-1000 Brussels  
 Belgium  
 Tel: +32 2504 6400  
 Fax: +32 2504 6401

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### *Global Competition Contacts*

#### **BRUSSELS AND LONDON**

**Stephen Kinsella OBE**

t: +32 2 504 6400

t: +44 20 7360 3600

e: [skinsella@sidley.com](mailto:skinsella@sidley.com)

#### **WASHINGTON, D.C.**

**Larry Fullerton**

t: +1 202 736 8000

e: [lfullerton@sidley.com](mailto:lfullerton@sidley.com)

#### **HONG KONG**

**William O. Fifield**

t: +852 2509 7888

e: [wfifield@sidley.com](mailto:wfifield@sidley.com)

#### **CHICAGO**

**Charles W. Douglas**

t: +1 312 853 7000

e: [cdouglas@sidley.com](mailto:cdouglas@sidley.com)

**Thomas F. Ryan**

t: +1 312 853 7000

e: [tryan@sidley.com](mailto:tryan@sidley.com)

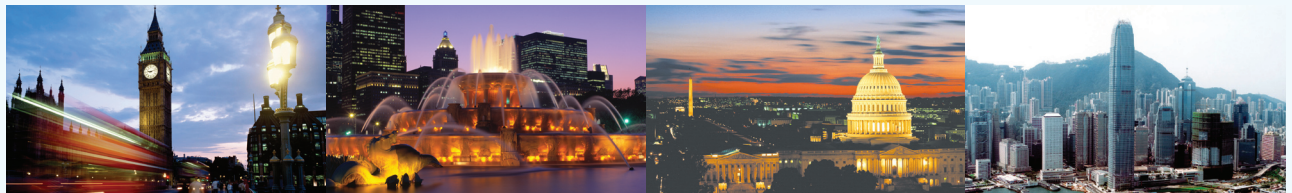
**John Treece**

t: +1 312 853 7000

e: [jtreece@sidley.com](mailto:jtreece@sidley.com)

[www.sidley.com](http://www.sidley.com)

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