LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition

Pranvera Këllezi
Bruce Kilpatrick
Pierre Kobel *Editors*

# Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution

LIDC

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ISSN 2199-742X ISSN 2199-7438 (electronic)
LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition
ISBN 978-3-030-17549-8 ISBN 978-3-030-17550-4 (eBook)
https://doi.org/10.1007/978-3-030-17550-4



This Springer imprint is published by the registered company Springer Nature Switzerland AG.
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

# Preface

On behalf of the LIDC (the International League of Competition Law), we are delighted to present the seventh edition of LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, which captures the reports prepared by the international and national reporters at the League's Annual Congress held in October 2018 in Budapest, Hungary. We would like to thank the Hungarian group of the LIDC of this event and for their dedication and enthusiasm in putting together such a strong programme.

The Congress is, in the editors' opinion, a real 'one of a kind' event, bringing together leading practitioners across the antitrust and intellectual property fields from a wide variety of jurisdictions across the globe, with detailed national reports on two topics chosen by the LIDC's Scientific Committee and an international comparative report on each topic.

It takes a huge amount of work and commitment from the national reporters, and particularly the international reporters, to produce their studies, and we would like to thank them for their enormous contribution, which is greatly appreciated. This year's Congress brought together delegates from across the world, with national reports from jurisdictions including Brazil and Hong Kong, as well as from across the European Union and Switzerland. The purpose of this book is to share their learning with a wider audience across the members of the LIDC and its constituent national organisations and with academics, practitioners and students across the world. We hope you enjoy reading it as much as we enjoyed listening to the debate and discussions that took place in Budapest.

The League's program in Budapest covered the allocation of liability for infringement of antitrust laws between corporations and individuals. The first part of the book explores the criminal and administrative sanctions available against corporations, companies or group of companies and individuals, such as employees or directors. A detailed international report drafted by Tihamer Tóth, Professor at Pázmány Péter Catholic University and Counsel at Dentons, Budapest, explores the major trends and challenges in this field and provides an excellent comparative study of this complex and challenging subject.

The second part of the book focuses on the intellectual property question that was debated at Congress during a further working session. The excellent international report drafted by Nikolas Guggenberger, Professor at Münster University in

Germany, explores the challenges faced while finding the right balance between the interests of consumers and the interests of holders of intellectual property rights. This second part examines whether intellectual property rights are sufficiently protected to ensure a fair return on investments made by manufacturers and distributors. This question comes at a time where distribution is facing deep and radical changes with the Internet.

The final reports have now been sent to national and supranational competition law enforcers, which have in the past commented very positively on LIDC reports and their value to enforcers. The works of the LIDC have been a well of practical guidance for generations of lawyers, whether or not they are members of the LIDC, and for regulatory authorities.

The editors would like to thank all the authors for their contributions and their patient collaboration during the editing of this book. They would like to express their sincere gratitude to the Members of the Bureau, of the Council and of the Scientific Committee for their kind support and encouragement during the preparation of this book.

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# Abbreviations

| | |
|---|---|
| AUD | Australian dollar |
| Berne Convention | The Berne Convention for the Protection of Literary and Artistic Works of 9 September 1886, as amended |
| Brussels Convention | Brussels Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite, 1974 |
| BGBl. | Bundesgesetzblatt (Germany) |
| BGH | Bundesgerichtshof (Germany) |
| BGN | Bulgarian lev |
| B2B | Business to business |
| B2C | Business to consumers |
| bn | Billion |
| BRL | Brazilian real (reais) |
| c./ca. | Circa |
| cf. | Compare |
| CFI | Court of First Instance of the ECJ (before 1 December 2009) |
| CFREU | The Charter of Fundamental Rights of the European Union, OJ 2010 C 83, p. 389 |
| CHF | Swiss franc |
| CJEU | Court of Justice of the European Union (after 1 December 2009) |
| CMLR | Common Market Law Review |
| $CR_n$ | Concentration ratio measuring the percentage market share held by *n* largest undertakings |
| De minimis Notice | Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 101(1) of the Treaty on the Functioning of the European Union (de minimis), OJ 2014 C 291, p. 1 |

| | |
|---|---|
| Directive 97/7 | Directive 97/7 of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts, OJ 1997 L 144, p. 19 |
| Directive 96/09 or Database Directive | Directive 96/9 of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, OJ 1996 L 77, p. 20 |
| Directive 2000/31 or Directive on electronic commerce | Directive 2000/31 of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, OJ 2000 L 178, p. 1 |
| Directive 2001/21 or InfoSoc Directive | Directive 2001/29 of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ 2001 L 167, p. 10 |
| Directive 2001/83 | Directive 2001/83 of the European Parliament and of the Council of 6 November 2001 on the Community code relating to medicinal products for human use, OJ 2001 L 311, p. 67 |
| Directive 2004/48 | Directive 2004/48 of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, OJ 2004 L 157, p. 45 |
| Directive 2005/29 or Unfair Commercial Practices Directive | Directive 2005/29 of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450, Directives 97/7, 98/27 and 2002/65 of the European Parliament and of the Council and Regulation 2006/2004 of the European Parliament and of the Council, OJ 2005 L 149, p. 22 |
| Directive 2006/115 or Rental and Lending Rights Directive | Directive 2006/115 of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property, OJ 2006 L 376, p. 28 |
| Directive 2009/24 or Software Directive | Directive 2009/24 of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ 2009 L 111, p. 16 |
| Directive 2012/28 or Orphan Works Directive | Directive 2012/28 of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works, OJ 2012 L 299, p. 5 |
| Directive 2014/104 | Directive 2014/104 of the European Parliament and of the Council of 26 November 2014 on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union, OJ 2014 L 349, p. 1 |

| | |
|---|---|
| DKK | Danish krone |
| DM | Deutsche mark |
| e.g or eg | For example |
| EC | European Community |
| ECHR | Council of Europe, European Convention for Human Rights of 4 November 1950 |
| ECJ | European Court of Justice (before 1 December 2009) |
| ECR | European Court Reports |
| ECtHR | European Court of Human Rights |
| EU | European Union |
| Ff | And following |
| GBP | Pound sterling (UK) |
| GATT 1947 | General Agreement on Tariffs and Trade 1947 |
| GATT 1994 | General Agreement on Tariffs and Trade 1994 |
| GC | General Court of the CJEU (after 1 December 2009) |
| GDP | Gross domestic product |
| Guidelines on the effect on trade concept | Commission Notice—Guidelines on the effect on trade concept contained in Articles 81 and 82 of the Treaty, OJ 2004 C 101, p. 81 |
| Guidelines on Vertical Restraints | Guidelines on Vertical Restraints, OJ 2010 C 130, p. 1 |
| Ha | Hectare |
| Hague Agreement | Hague Agreement Concerning the International Registration of Industrial Designs, 1925 |
| HRK | Croatian kuna (*hrvatska kuna*) |
| HMT | Hypothetical monopolist test |
| HUF | Hungarian forint (*Magyar forint*) |
| i.e. | Id est (that is) |
| Id./Idem | The same as previously mentioned |
| IP | Intellectual property |
| Lisbon Agreement | Lisbon Agreement for the Protection of Appellations of Origin and their International Registration of October 31, 1958, as revised at Stockholm on July 14, 1967, and as amended on September 28, 1979 |
| Locarno (Classification) Agreement | Locarno Agreement Establishing an International Classification for Industrial Designs, 1979 |
| M | Million |
| $m^2$ | Square metre |
| min | Minutes |
| Madrid Agreement | Madrid Agreement Concerning the International Registration of Marks, 1979 |
| MFN | Most Favoured Nation |
| NAAT-rule | The non-appreciable affectation of trade rule |

| | |
|---|---|
| Nice (Classification) Agreement | Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, 1979 |
| Notice on the relevant market | Commission Notice on the definition of relevant market for the purposes of Community competition law, OJ 1997 C 372, p. 5 |
| OECD | Organisation for Economic Co-operation and Development |
| OJ | Official Journal |
| p./pp. | Page(s) |
| para/paras | Paragraph(s) |
| Phonograms Convention | Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms, 1971 |
| PTL | Patent Law Treaty, 2000 |
| Paris Convention | Paris Convention for the protection of industrial property, 1883 |
| pt/pts | Point(s) |
| kg | Kilogram |
| R&D | Research and development |
| Regulation 2659/2000 | Commission Regulation 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements, OJ 2000 L 304, p. 7 |
| Regulation 1400/2002 | Commission Regulation 1400/2002 of 31 July 2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector, OJ 2002 L 203, p. 30 |
| Regulation 1/2003 | Council Regulation 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ 2003 L 1, p. 1 |
| Regulation 2006/2004 | Regulation 2006/2004 of the European Parliament and of the Council of 27 October 2004 on cooperation between national authorities responsible for the enforcement of consumer protection laws (the Regulation on consumer protection cooperation), OJ 2004 L 364, p. 1 |
| Regulation 139/2004 | Council Regulation 139/2004 of 20 January 2004 on the control of concentrations between undertakings, OJ 2004 L 24, p. 1 |

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|---|---|
| Regulation 110/2008 | Regulation 110/2008 of the European Parliament and the Council of 15 January 2008 on the definition, description, presentation, labelling and protection of geographical indications of spirit drinks, OJ 2008 L 39, p. 16 |
| Regulation 330/2010 | Commission Regulation 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ 2010 L 102, p. 1 |
| Regulation 1151/2012 | Regulation 1151/2012 on quality schemes for agricultural products and foodstuffs, OJ 2012 L 343, p. 1 |
| Regulation 608/2013 | Regulation 608/2013 of the European Parliament and of the Council of 12 June 2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation 1383/2003, OJ 2013 L 181, p. 15 |
| Regulation 1308/2013 | Regulation 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products and repealing Council Regulations 922/72, 234/79, 1037/2001 and 1234/2007, OJ 2013 L 347, p. 671 |
| Regulation 251/2014 | Regulation 251/2014 of the European Parliament and of the Council of 26 February 2014 on the definition, description, presentation, labelling and the protection of geographical indications of aromatized wine products, OJ 2014 L 84, p. 14 |
| Regulation 316/2014 | Commission Regulation 316/2014 of 21 March 2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements, OJ 2014 L 93, p. 17 |
| Rome Convention | International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, 1961 |
| RON | Romanian leu |
| SEK | Swedish krona |
| Singapore Treaty | Singapore Treaty on the Law of Trademarks, 2006 |
| SMEs | Small and medium-size enterprises |
| SMP | Significant market power |
| SSNIP | Small but significant and non-transitory increase in price |
| TEC | Treaty Establishing the European Community |
| TFEU | Treaty on the Functioning of the European Union |
| TLT | Trademark Law Treaty, 1994 |

| | |
|---|---|
| TRIPs | Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, signed in Marrakesh, Morocco on 15 April 1994 |
| UAH | Ukrainian hryvnia |
| UK | United Kingdom |
| US/USA | United States of America |
| v | Versus |
| Vienna (Classification) Agreement | Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks, 1985 |
| WCT/WIPO Copyright Treaty | World Intellectual Property Organization Copyright Treaty, 1996 |
| WPPT | WIPO Performances and Phonograms Treaty, 1996 |

# Part I

# Liability for Antitrust Law Infringements

# International Report

# 1

Tihamer Tóth

## 1.1 Introduction

Many would agree that the imposition of corporate fines by competition authorities is not sufficient by itself to act as a deterrent. It seems that not even huge fines trickle down the chain to deter individuals. Some countries have introduced individual criminal liability for some antitrust infringements, but in most jurisdictions criminal penalties are not enforced in practice. This questionnaire aims to answer whether additional, more creative individual sanctions should be introduced or whether corporate compliance programmes should be encouraged without creating new kinds of corporate or individual sanctions.

The purpose of this report is therefore to analyse and compare the approaches of the various national jurisdictions as to how liability for infringement of EU and national competition rules is allocated between different persons. The scope of this inquiry relates to the infringement of substantive antitrust rules: the prohibition of agreements, concerted practices and decisions by associations of undertakings and the prohibition of abuse of dominance.[1] Although competition laws cover a wide range of business practices, the most common unlawful activities that are subject to sanctions in practice are horizontal cartels between competitors and resale price maintenance within distribution systems.

[1]There are some jurisdictions which consider misleading advertising and other forms of unfair commercial practices as part of their competition law regime and empower competition authorities to enforce these rules. This questionnaire does not intend to analyse these rules, yet some national reporters may take examples of best practices from this field of competition law when *de lege feranda* issues are discussed.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_1

The common issue with imposing sanctions on business-related breaches of the law is how to punish the business entity and the individuals who were involved in the wrongdoing. Beyond the allocation of liability within a corporation, we will also look at the more specific issues raised by parent and subsidiary relations and acts of associations of undertakings. The report also intends to cover the different treatment of a company and its employees under leniency programmes to highlight the difference between corporate and individual liability. Compliance with antitrust rules is a key issue not only for companies but also for competition authorities. We will therefore investigate to what extent an undertaking can reduce or even eliminate liability by pointing to the existence of a compliance programme and how individual breaches of an existing compliance programme may impact the liability of the corporation.

The focus of the questionnaire will be on substantive liability. Individual liability for procedural breaches (e.g. destroying documents, providing false information) and enforcement breaches (disobeying terms of an infringement or commitment decision of a competition authority) will be briefly covered.

In this report, we do not cover merger-related sanctions since mergers constitute not a prohibition but rather an authorisation-based legal regime,[2] where sanctions can only be imposed for a failure to notify, implementing the transaction before permission is granted, and for procedural issues.

In many countries, where a conduct restricting competition is not a crime, there might be other competition-related crimes, i.e. those that relate to unfair commercial practices, especially misleading advertising.[3] In this survey, we do not cover these practices but focus only on cartels and abuses of a dominant position.

It is also not easy to keep a paper like this focused, given the broad range of legal fields concerned. Even if we just focus on one specific area, disregarding other important areas of law enforcement like polluting the environment, inventive book-keeping activities, kickbacks, etc., we still have to cover the different approaches as represented by criminal, administrative and civil law enforcement.[4] Finally, we would get an incomplete picture talking about the deterrence of antitrust fines imposed by an administrative agency without considering the potential for damages to be paid by the same company and also fines that individual employees might have to face in case of non-compliance.

[2]An exception is Belgium, where the Code of Economic Law lists among prohibited activities not only anti-competitive agreements and abuse of dominance, but also the implementation of a merger without prior approval. Gun-jumping may trigger the same sanction as cartels.

[3]For example the Swiss Federal Act against Unfair Competition provides for criminal provisions for intentional unfair advertising and sales methods, or infringing trade secrets. In Ital, unfair competition with threats and violence is also punishable under criminal law. This is also the case in France and Hungary.

[4]In some countries, like in Germany, or Hungary, there exists a fourth way to enforce state mandated rules, the law of misdemeanor, an overlapping area between traditional criminal law and administrative law.

Another issue is the blurring of the distinction between criminal and administrative laws. As a rule, most jurisdictions surveyed establish an administrative (or civil) regime to address conspiracy or unilateral conduct restricting or eliminating free competition. The U.S. system, which pictures the most serious antitrust infringements as criminal activities, is not deeply rooted in Europe. In most jurisdictions surveyed, only bid-rigging cartels are criminal infringements and are subject to criminal sanctions. However, thanks to the extensive jurisprudence of the European Court of Human Rights, unlawful acts regulated by administrative law qualify as criminal acts, or at least quasi-criminal acts, with the result that some of the well-established principles of criminal law protecting the rights of individuals must also be respected by administrative agencies, like competition authorities bringing cases against corporations.

The greatest part of this document is devoted to mapping current rules on sanctioning anti-competitive behaviour by companies and individuals. Bearing in mind the distinction between the law in the books and the law in practice, we encouraged national rapporteurs, before sharing their ideas about potential amendments of the laws, to evaluate how effective existing sanctions are. The evidence in this report indicates that individual sanctions, even where they exist, are not applied routinely, the most favoured tool is still imposing corporate fines.

## 1.2 Antitrust Sanctions: Rules and Procedures

### 1.2.1 The Goals Behind Sanctions

In theory, the goals pursued by law enforcers could have an effect on which kind of sanction is applied and, more specifically, on how fines are calculated. As a rule, the goals of competition law sanctions are not defined by statutes themselves. Rather, preparatory legal documents, case law or guidelines issued by competition authorities lay out these objectives.

Sanctions are meant to deter and to punish.[5] For example, administrative fines punish undertakings for violating competition rules by retrieving most of or ideally more than what the unlawful gain was or could have been from its violation. Sanctions also send a moral message that the behaviour is not welcome in society. Deterrence functions in two respects: individual and general. The former seeks to change the future behaviour of the violator, i.e. preventing recidivism. General deterrence aims to discourage other undertakings from infringing competition rules.

In fact, most of the national reports mentioned these dual goals of retribution and deterrence, which are both manifested in preparatory legal documents or case law:

[5] E. M. Michels, The Real Shortcoming of the UK Cartel Offence: A Lack of Public and Political Support, Global Antitrust Review 2014, p. 55., quoting case T-329/01 *Archer Daniels Midland v Commission*, ECR 2006 II 3255, pt 141.

- The BCA indicates on its website that 'the formal procedures for pursuing infringements constitute the backbone of the BCA's deterrent mechanism'.[6]
- The Paris Court of Appeal held that administrative sanctions are intended to punish the authors of infringements of competition law rules and to dissuade economic agents to engage in such practices.[7]
- The Hungarian Constitutional Court confirmed[8] that, similarly to EU law, repeating violations of competition rules can lead to fines aiming for both deterrence and punishment. Especially, individual deterrence might substantiate higher fines for repeat offenders. The Antitrust Notice of the HCA, in line with review courts' jurisprudence, states that the aim of a fine is to deter undertakings from committing unfair business practices and to safeguard fair economic competition; therefore, apart from retribution, both individual deterrence and general deterrence are taken into account. This can only be achieved if the fine is substantial for the undertaking.
- According to the fining guidelines of the AGCM, the primary goal of competition law sanctions in Italy is twofold. On the one hand, competition law sanctions have a punitive function, with regard to the undertaking on which they are imposed (so-called specific deterrence). On the other hand, sanctions are aimed at discouraging other undertakings from carrying out or continuing to perform conducts in violation of competition law provisions (so-called general deterrence).
- The Swedish report, relying on preparatory legislative works, refers only to the deterrence function: when setting the fine, this shall be done with the explicit aims to (i) ensure that the company receiving the fine will not resort to illegal behaviour in the future, and (ii) deter others from engaging in activities contrary to competition rules.[9]
- In Switzerland, the specific goals of imposing competition law sanctions are also mentioned in the legislative preparatory work to the CartA.[10] The Federal Council's message to the Swiss Federal Parliament regarding the amendment of the CartA clearly identifies deterrence and retribution as the main goals.[11] According to the Swiss Competition Commission's (COMCO's) commentary on the CASO, the magnitude of competition law sanctions is intended to make breaches of competition law unappealing for undertakings when they compare

[6]Available at https://www.belgiancompetition.be/en/about-belgian-competition-authority. Accessed 5 November 2018.

[7]Court of Appeal of Paris, 9 April 2002, Géodis Overseas France.

[8]Case No. IV/01697/2013.

[9]Prop. 207/08:135, p. 112 and p. 120.

[10]Message of the Federal Council on the Amendment of the Cartel Act of 7 November 2001, Official Gazette 2002 2022 et seq.

[11]Message of the Federal Council on the Amendment of the Cartel Act of 7 November 2001, Official Gazette 2002 2022 et seq, 2033 and 2052.

the benefits with the risks of anti-competitive behaviour.[12] COMCO, therefore, actively pursues the deterrent goal of competition law sanctions.

Brazil is unique for its competition act defining the goals of antitrust remedies. Section 1 of Law 12,529/2011 provides for the repression and prevention of offences against the economic order, guided by the constitutional principles of freedom of initiative, free competition, social function of property, protection of consumers and repression of the abuse of economic power.

It is hard to judge to what extent law enforcers bear in mind these goals when fines are calculated. One would think that a deterrence-based approach would put more emphasis on individual, subjective factors, which is not necessarily the case. Most antitrust fining guidelines include a final assessment of the fine: the size of the undertaking is compared with the calculated fine to double check whether the deterrent effect is sufficient.

The Spanish report highlights that fines should not be overly deterrent either. *Proportionality* is an important principle that should be taken into account when calculating a fine. In fact, the CNMC tends to revise the sanctions that can be imposed on multi-product companies, taking into account the amount of the turnover of each of the infringing companies in the affected market to determine their 'share of participation in the infringement'[13] and subsequently adapting the amount of the fine bearing in mind that multi-product companies would be severely harmed compared to single product companies. In a similar fashion, the Ukrainian competition authority also claims that the application of fines should not lead to the deprivation of the companies' possibility to compete or to the impossibility of meeting consumer demand.[14]

For the purposes of this research, we assumed that *payments of damages* by companies should not be treated as a sanction in *strictu sensu*, so we limited ourselves to presenting the most important damage rules. The goal behind awarding damages is to compensate the victims following the principle of *in integrum restitutio*. Genuine sanctions, on the other hand, involve legal consequences of an unlawful action, which pursue objectives like punishment and deterrence.[15] By now, in EU Member States, rules for competition-law-related damages actions have been aligned with the Antitrust Damages Directive.[16] These regimes apply the full compensation system, which ensures that any natural or legal person that has

[12] The CA's Commentary on the CASO, dated 1 January 2006, p. 4.

[13] See for instance, CNMC, case number S/DC/0562/15 - LV/MV Cables, November 21, 2017.

[14] Recommendation Clarifications on the application of the provisions of the second, fifth and sixth paragraphs of article 52 of the Law of Ukraine on Protection of Economic Competition, parts 1 and 2 of article 21 of the Law of Ukraine On Protection Against Unfair Competition (No. 39-pp).

[15] This is not to say that damages have no deterrence value at all. Yet, their major objective is to re-create the situation that had existed before the unlawful activity occured (*in integrum restitutio*).

[16] Directive 2014/104 of the European Parliament and of the Council of 26 November 2014 on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union, OJ 2014 L 349, p. 1.

suffered harm caused by an infringement of competition law is able to claim and to obtain full compensation for that harm.

On the other hand, suing a director or an employee by the company or shareholders following the imposition of fines by a competition authority could be conceptualised more like a form of sanction that would both punish the individual wrongdoer and deter future unlawful conduct by individuals.

### 1.2.2 Different Legal Fields, Different Targets, Different Kind of Sanctions

In this section, we summarise the existing (*de lege lata*) rules on sanctions that can be imposed whenever companies share markets, conspire on prices, set the retail price, or abuse their dominant position. For the purpose of this section, we assume that antitrust rules are basically the same, following closely Articles 101 and 102 TFEU.[17]

Sanctions related to distorting free markets are always established by law, following the well-established criminal law principle *nulla poena sine lege*. As a rule, this is usually the competition act or a code of economic or commercial law (i.e. Belgium, France).

The most favoured method of sanctioning business-related unlawful conduct is to impose a monetary burden on the corporation or, in a few countries, on individuals. Paying money can take different legal forms. The most widely used sanction in case of anti-competitive activities is *administrative fines*[18] imposed on companies. Under criminal law, *penalties* will be accompanied by a negative criminal record.[19] In many countries, criminal law also allows the confiscation of unlawful gains, profit, which may also take the form of money transferred from the unlawful actor to the public. Finally, a civil court may order the losing party to pay *damages* to the plaintiff.

As a rule, it is the national competition authority that investigates the case and imposes the sanction, which is then subject to administrative court review. A notable exception is Sweden, where the SCA is empowered to establish an infringement and order an undertaking engaged in such practice to terminate the infringement,[20] but only courts can impose fines at the request of the SCA.[21] Paying financial penalties (fines) following the competition authority's investigation is also possible:

[17]Articles 101 (1) and 102 (2) TFEU provide for a prohibition system. Not all countries have adopted the same regime; in Switzerland for instance agreements or abuse of dominant position are considered as unlawful, however the result in term of sanctions is the same.

[18]Using the UK term, 'civil fines'.

[19]In Hungary, for example, the same approach exists in misdemenaor law, although competition law is not covered by this act.

[20]Chapter 3, Section 1 of the Act.

[21]With the exception of the possibility to issue fine orders, see further below.

undertakings that admit their guilt can accept an administrative fine proposed by the SCA, a so-called fine order.[22]

Criminal investigations are carried out by the police and public prosecutors; judgments are handed down by criminal courts. One notable exception is the UK, where the competition authority investigates in criminal cases too.

Germany is also special for introducing a third legal category in addition to traditional administrative and criminal procedures. I should add that other countries, like Hungary, also apply this 'triangle' for structuring public punishments, yet the Hungarian law of regulatory offences does not cover competition rules. The German BKA may choose to bring a procedure under administrative law or applying regulatory offence rules. Minor legal consequences such as prohibitions, behavioural and structural remedies, and disgorgements can be ordered in administrative proceedings.[23] Regulatory fines may, however, only be imposed in *regulatory offence* procedures.[24] The quasi-criminal nature of the German regulatory offence proceeding becomes apparent if one also considers how the review procedure is regulated. Once an addressee files an objection against the initial fining decision, the procedure will be turned into a quasi-criminal trial, which will largely be conducted under the rules of the German Code of Criminal Procedure. Public prosecutors rather than the competition authorities will argue the case, and following a full hearing of evidence, the competent court will deliver a *de-novo*-decision.

The legal nature of the sanction determines procedural rules and may have an impact on level of proof issues as well. Even though traditional administrative procedures have been closely aligned to criminal law, thanks to the 'corporate human rights movement', a criminal law framework seems to demand a higher level of proof and more procedural protection for companies and individuals resulting in less enforcement action overall.

One of the goals of this international report is to show that there is life beyond corporate fines (be it administrative/civil, criminal or quasi-criminal in nature). Corporate disqualification from bid rigging, widely publicising the negative decision or temporal closure of a shop or a business may also contribute to the dual goals of punishment and deterrence. Public shame may also deter companies from infringements of competition law. In Brazil, a half-page of a summary of the decision in a newspaper indicated in the decision, at the expense of the company, shall be published for two consecutive days or for one to three consecutive weeks.[25]

[22] *Sw. Avgiftsföreläggande*.

[23] Sections 54-62 of the German Competition Act (*Gesetz gegen Wettbewerbsbeschränkungen* – henceforth: GWB) in conjunction with the Administrative Procedure Act (*Verwaltungsverfahrensgesetz*) of the German federation or the respective *Land*.

[24] These are governed under sections 81-86 GWB in conjunction with the Act on Regulatory Offences (*Ordnungswidrigkeitengesetz* – henceforth: OWiG) and the German Code of Criminal Procedure (*Strafprozessordnung* – henceforth: StPO).

[25] Section 38, subsection I, of the Competition Act (LDC).

As to the *targets of sanctions*, we will see that either companies and/or individuals may be held liable for anti-competitive actions. It is argued that this individual sanction strikes the right balance as a penalty which has widespread public support (unlike imprisonment) and which is achievable in a wide variety of cases.

As a rule, competition can be restricted by market actors, i.e. 'undertakings'. This is a wide notion, immune to legal formalities. Natural persons carrying out independent economic activities may also become undertakings. However, if the law intends to reach out to employees, directors and representatives of an undertaking, some solution must be found to bring them into the realm of the legal prohibition of anti-competitive activities. In some countries, an individual can only be held liable if the relevant undertaking has been held to infringe competition rules (accessory liability).[26] In other jurisdictions, individual sanctions are a matter of criminal or misdemeanour law, which include distinct definitions that are usually modelled on competition law.

Non-criminal individual sanctions for the infringement of competition rules are rather rare (see in more detail in the forthcoming chapters). Examples of jurisdictions with *individual administrative fines* are Belgium and Spain. Many jurisdictions provide for individual fines for procedural infringements.

Only a few countries have experience with *disqualifications*, including managerial and public-tender-related ones. The UK and Sweden are notable examples as far as director disqualification is concerned.

*Corporate disqualification* occurs in several countries in relation to bid rigging.

– In Austria, a criminal conviction of a director may lead to the company being 'blacklisted' at tenders under public procurement law.[27]
– In Germany, in accordance with the EU Directive on Public Procurement,[28] (potential) cartel offenders may also be excluded from procurement procedures.[29] Interestingly, such exclusion does not require a prior decision by a competition authority but may be independently decided by the contracting authority where it has sufficiently plausible indications to conclude that an undertaking has engaged in anti-competitive collusion.
– According to Hungarian law, disqualification is available; however, it is not the HCA that is entitled to apply this sanction at the end of antitrust investigations. The Public Procurement Act declares that a company is *automatically* excluded from public procurement procedures as a bidder or subcontractor if a fine was

[26]In Belgium, for example, article IV.1 section 1 CEL aims at undertakings, while Article IV.1 section 4 CEL further prohibits individuals to negotiate on behalf of an undertaking or an association of undertakings, agreements with competitors, which (a) fix the selling prices of goods or services to third parties; (b) limit the production or sale of goods or services; or (c) allocate markets.

[27]See sec 68 of the Austrian procurement law, *Bundesvergabegesetz*.

[28]Art. 57(4)(c) of Directive 2014/24, OJ 2014, L 94, p. 65.

[29]Section 124(1) no. 4 GWB.

imposed on it by the HCA for committing a cartel infringement (it can be any cartel, not just a public-procurement-related cartel). Moreover, companies are also excluded from public procurement if their management was found guilty during the last 5 years for committing bid rigging in public procurement and concession procedures by the criminal court until the dispensation of criminal record. In addition, where the contracting authority itself discovers an infringement of Article 11 of the Competition Act or Article 101 of the TFEU, the tenderer may also be excluded, unless the given tenderer itself reports the infringement to the contracting authority and submits a leniency application to the HCA at the same time. The disqualification is applied by the contracting authority in the course of the public procurement procedure.
– In Spain, since 2015, companies and individuals who were fined for cartels or other serious competition infringements can be banned from contracting with the public administration for a duration of up to 3 years. The prohibition will only apply if the decision of the Competition authority is final. Even in severe long-lasting bid-rigging cartel cases, the Competition Authority has not imposed the prohibition.[30]
– Also, in Ukraine, the law provides for a 3-year disqualification, which can lead to the dissolution of companies gaining their revenues from public tenders. This is regarded by many companies as an important deterrent factor, even if the system can be tricked by creating a new legal entity.

The *general criminal prohibition* of cartels and abuse of dominance is rare. The closest to this is the French system, at least on paper, where participation not only in anti-competitive agreements but also in abusive practices may lead to imprisonment and criminal fines. In the UK, the Enterprise Act 2002 includes the so-called *cartel* offence. The original cartel offence came into force in 2003; the cartel offence in its current form has been in force since 1 April 2014, so most of the experience reported relates to the original cartel offence.[31] In the UK, a person commits the offence if he or she agrees with one or more other persons that two or more undertakings will engage in certain prohibited cartel arrangements, namely price fixing, market sharing, bid rigging and limiting output. Most jurisdictions have an even narrower criminal law provision, targeting *public procurement related cartels*, i.e. bid rigging (Austria, Germany, Hungary, Italy). In these countries, a combination of the protection of free competition and the fair spending of public funds warranted criminalisation. One should bear in mind that unlike under ordinary competition law, jurisdictions with a criminal sanction can reach, at least in theory, also attempted cartels and also individuals who encouraged or assisted another person to commit an offence.

[30]See for instance, CNMC, case number S / DC / 0565/15 - Tenders for IT services of July 26, 2018.

[31]The original cartel offence may still be of practical importance, since, unlike in most jurisdictions, there is no statute of limitation for the cartel offence.

*Criminal corporate sanctions* are even more rare than individual criminal sanctions are. In some countries, like Germany, corporate criminal sanctions do not exist. In contrast, in France, criminal sanctions can be applied also against legal persons if the offence was committed on their behalf by their organs or representatives. In Austria, companies can be held liable for bid rigging committed by their employees or decision-makers.[32] In Italy, the criminal liability of companies is also possible in case of bid rigging.[33] Italian criminal judges can impose on the company monetary sanctions and debarment sanctions and order confiscation. An interesting example is Hong Kong, where criminal corporate sanctions (just like individual criminal sanctions) exist in case of *obstruction of the investigation*. One of the unlawful conducts is unique: criminal conviction can take place if employment is terminated for assisting the competition authority. In Hungary, theoretically, criminal sanctions can also be imposed on the companies themselves. There is a separate law in Hungary for criminal sanctions applicable for companies; however, these are rather exceptionally applied.[34]

Another important aspect of criminal liability in the context of bid rigging is the additional sanction of *disgorgement of profits*.[35] The additional revenue that was generated through bid rigging may be confiscated in this way.

In countries where there is no cartel crime as such, other provisions of the criminal code may still be interpreted to catch anti-competitive conduct. Swiss criminal law does not criminalise cartels; however, it is a matter of dispute whether bid rigging may also be considered as *fraud* under Section 146 of the Swiss Criminal Code.[36] Also in Germany, bid rigging and similar anti-competitive collusions may constitute fraud under Section 263 StGB.[37] The Hong Kong report notes that the prosecution traditionally made use of the prevention of bribery ordinance to deal with anti-competitive conduct, if bribery could be proved.

Although we do not deal with private sanctions in details, we should emphasise that *punitive damages* as they exist in the U.S., as a rule, are not available in the jurisdictions surveyed. The principle prevails that the victim cannot be better off by receiving damages. This reinforces the conceptual difference between penalties and fines on the one hand and compensatory damages on the other. Also, the German report mentions that private enforcement is supposed to complement, not substitute, the effective administrative and criminal enforcement of competition law. One exception to this rule is Hong Kong, where punitive damages could be awarded, at

[32]The Austrian Statue on the Responsibility of Legal Entities (*Verbandsverantwortlichkeitsgesetz*).

[33]Legislative Decree No 231 of July 8th, 2001.

[34]Act CIV of 2001 on measures applicable to legal entities under criminal law.

[35]According to Sec 20 of the Austrian Criminal Code assets or profits acquired through a criminal act might be subject to forfeiture.

[36]An unofficial translation of the SCC is available under the following link: https://www.admin.ch/opc/en/classified-compilation/19370083/index.html. Accessed 27 August 2018.

[37]BGH, Judgment of 8 January 1992 – 2 StR 102/91, BGHSt 38, 186 (DE) – Rheinausbau I.

least in theory, in addition to compensatory damages.[38] The other is Ukraine, where the successful plaintiff can receive double the amount of the damage done.[39] In the UK, where *exemplary damages* (i.e. damages in excess of a claimant's actual losses) for competition infringement that began before 8 March 2017[40] are available in cases where (1) the infringement has not been punished by a fine by a competition authority and (2) the defendant showed a 'cynical disregard' for the claimant's rights.[41] Given the high bar, exemplary damages have only been awarded once by the English Court,[42] and even then the damages awarded were a small fraction of the sums sought.[43] For anti-competitive action after 8 March 2017, this kind of damages is precluded by the Damages Regulations.[44]

This is not to say that there can be no relation between imposing a *fine* and the *damage* paid by the same company. In Germany, there is no rule requiring that damages shall be taken into account when calculating fines. However, it is argued in the literature that deductions should be made as far as the purpose of a fine is already achieved by an undertaking's obligation to pay damages.[45] Where offenders cooperate, the Bundeskartellamt generally tends to favour victim compensation over fines. For example, in 2009, the authority refrained from imposing fines in a horizontal price-fixing case after the undertakings agreed to make up for the losses they had caused.[46]

In Hungary, compensation is not a direct goal of fines; however, if the undertaking adopted remedies for those who suffered harm, this compensation can be taken into account[47] and deducted from the fine.[48]

[38]The Competition Ordinance commenced full operation recently, on 14 December 2015.

[39]the Law of Ukraine 'On Protection of Economic Competition', Article 55.

[40]Paragraph 42 Damages Regulations.

[41]*Albion Water Limited v Dŵr Cymru Cyfyngedig* [2010] CAT 31.

[42]Although this Reporter is aware of at least one other case where they were paid as part of a settlement agreement.

[43]*Travel Group PLC (in liquidation) v Cardiff City Transport Services Limited* [2012] CAT 19.

[44]Paragraph 36 Damages Regulations.

[45]Such a rule could be modelled after section 34(2) GWB, stipulating that damages, fines and reimbursement orders must be taken into account in the disgorgement of benefits. D. Poelzig and T. Bauermeister, Kartellrechtsdurchsetzung, *ne bis in idem* und Verhältnismäßigkeit (Teil 2) – Die Anrechnung kartellrechtlicher Sanktionen, NZKart 2017, pp. 571–574; M-P. Weller, Die Anrechnung pönaler Schadensersatzleistungen gemäß section 33 GWB auf Kartellbußen, ZWeR 2008, pp. 170–193.

[46]Case Summary of 25 May 2009 – B3-144/08. See also E. Bueren, Germany. In: Kilpatrick, Kobel and Këllezi (eds), Compatibility of Transactional Resolutions of Antitrust Proceedings with Due Process and Fundamental Rights & Online Exhaustion of IP Rights – LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, Springer 2016, p. 218-19.

[47]See paras 67-69 of the Antitrust Notice.

[48]Cf. e.g. also Decision No. Vj/11-334/2014 or Decision No. Vj/37-303/2014.

Finally, in the UK, following the recent adoption of the CMA's Fining Guidelines on 18 April 2018, undertakings fined by the CMA have the opportunity to reduce their fine by entering into voluntary redress schemes.

In my view, imposing zero fines just because the damage was compensated omits the fact that sanctions are meant to punish and prevent. This full-compensation, zero-fine policy should be used only in those exceptional cases where the unlawful nature of a conduct was not clear under existing case law.

To conclude on this introductory overview, there are a range of sanctions available, involving a *warning* as a soft sanction. In Hong Kong, for instance, if the Commission has reasonable cause to believe that a contravention has occurred and the contravention does not involve serious anti-competitive conduct, the Commission must, before bringing proceedings in the Tribunal against the undertaking whose conduct is alleged to constitute the contravention, issue a warning notice to the undertaking, which gives the undertaking an opportunity to cease the contravening conduct within a warning period.[49] The Commission may then bring proceedings against the undertaking only if, after the expiry of the warning period, it has reasonable cause to believe that the contravening conduct continues after the expiry or it has reasonable cause to believe that the contravening undertaking repeats the contravening conduct after the expiry. Also in Hungary, at least for infringing domestic competition rules, SMEs need to be warned in the first place. An exception is if they participate in a cartel when they can be fined immediately.

### 1.2.3 A Quick Look Beyond Competition Law: Sanctioning of Business-Related Infringements

Competition law fines are notoriously among the largest in most jurisdictions. We should add, though, that other legal fields are more creative as far as sanctions are concerned. Fines are not the only instrument making companies think twice before they engage in an unlawful activity. These examples may give ideas for the legislator on how to make competition law sanctions more effective.

The Swiss report, for example, notes that there are a variety of sanctions for business-related breaches of criminal, administrative and civil law beyond monetary penalties and custodial sentences:

- exclusions of public tenders,
- prohibitions from practising a profession,
- revocations of regulatory approvals,
- confiscations of profits,
- publications of rulings,
- imposition of an obligation to do, tolerate or refrain from doing something, etc.

[49] See s.82 of the Competition Ordinance.

In many countries, infringing consumer law prohibitions may result in the *temporary closing* of a distribution outlet.

In Belgium, courts can *disqualify a person* from acting as a director, commercial intermediary or company auditor for a period of between 3 and 10 years in case he/she commits crimes such a forgery, fraud, bribery or embezzlement.[50] Similarly, courts can impose a similar disqualification on the director of a bankrupted company who committed serious errors that contributed to the company's bankruptcy.[51]

Finally, in countries where criminal sanctions can be imposed on companies, courts may order the *dissolution* of that legal entity or the *closure of one of its branches* or *prohibit it from engaging in certain activities* that are part of its corporate purpose.[52]

### 1.2.4 The Targets of the Sanction

Although the term 'undertaking' may cover various legal entities, it is usually a business entity/company/corporation that is the subject of a competition law case. In this chapter, first, we consider the question under what circumstances individual actions can be attributed to companies. Then we look inside the corporation to see to what extent natural persons, i.e. directors and other employees, can be sanctioned directly for their wrongdoing committed on behalf of the company. Second, we look at parental liability as an example for a legal person bearing responsibility for the actions of a subsidiary. Many countries have specific rules or practice allowing the competition authority to address its decision to the parent company of the actual infringer, even if it was not involved in the anti-competitive activity. Finally, the allocation of liability between an association of undertakings and their members will be discussed. The common thread connecting these various chapters is that a person can be held responsible not only for its own conduct but also for the actions of another person.

The importance of this topic is obvious: setting the wrong target will make difficult deterrence and punishment, if not impossible.

#### 1.2.4.1 Corporate Liability for Individual Actions

Before discussing individual liability of company representatives, we should recall that corporations as fictional legal persons can never act on their own. There is always one or more natural person who write emails, participate at meetings or agree on prices. However, competition laws do not prescribe when and how this individual conduct should be attributed to the company. Despite this, most jurisdictions surveyed regulate corporate liability regardless of the liability of individual persons acting on behalf of the company.

[50] Royal Decree no. 22 of 24 October 1934.

[51] Article XX.229 of the Code of Economic Law (the same law which includes antitrust rules).

[52] This is the case for example in Belgium.

A notable exception is Germany, where the quasi-criminal OWiG strictly focuses on the conduct of individuals. Once the individual's offence is established, liability (i.e. not the offence) may then be extended to the legal persons or associations of persons represented by the individual. Alternatively, legal persons or associations of persons may be liable for their representatives' omission to take supervisory measures that would have prevented or significantly impeded the violation of any of the undertaking's duties, the violation of which carries a criminal penalty or regulatory fine.[53]

The Austrian report mentions that the Austrian Supreme Cartel Court acknowledges that the activities of representatives and employees can be attributed to a company if[54]

(a) the representatives or employees were acting in an behalf of the company; it might be sufficient if the employee gave the impression of acting on behalf of the company[55];
(b) the representatives or employees complied with instructions. The fact that employees failed to comply with instructions when they engaged in an anti-competitive conduct might, under some circumstances, exculpate the company.[56] However, it is not necessary to prove that directors knew of the anti-competitive conduct or the anti-competitive agreement.[57]

The same question may arise in jurisdictions where not only individuals but also companies can be subject to *criminal* sanctions. In Austria, criminal behaviour can only be attributed to the company if it has been committed (i) for the benefit of the company or (ii) in violation of duties addressed to the company, i.e. no adequate compliance system was put in place.[58] The conduct of directors and employees can be attributed to the company according to different legal tests. As for criminal behaviour by representatives, the Austrian system of criminal liabilities for legal persons provides for a direct attribution to the company. A company can be held criminally liable if a representative fulfils all elements of the criminal offence, including personal guilt. All persons that have a significant influence on the decisions of the company, such as directors, board members or proxy holders, may be deemed a representative for the sake of criminal law if the offence was committed

[53]Legal persons or associations of persons whose representatives commit, or do not prevent their subordinates from committing, a competition law offence, may be held liable according to section 81 (1)–(3) GWB in conjunction with sections 9, 30 or sections 9, 130 OWiG. See e.g. Bundeskartellamt, Decision of 25 April 2007 – B7-42/06, p. 13; Bundeskartellamt, Decision of 17 December 2003 – B9-9/03, pp. 23–26; Bundeskartellamt, Decision of 8 August 2001 – B9-120/00, pp. 10–11.

[54]OGH 8.10.2008, 16 Ok 5/08, at recital 2.3.

[55]OLG Wien 2.1.2017, 26 Kt 4/16.

[56]OLG Wien 6.7.2016, 26 Kt 2/16.

[57]OLG Wien 2.1.2017, 26 Kt 4/16.

[58]Sec 3 of the Austrian Statue on the Responsibility of Legal Entities.

in his/her position in the company.[59] As for employees, it has to be established that an employee committed an offence *and* that the action (or omission) was caused or facilitated by the fact that the company's representatives did not take appropriate measures to prevent the employee from the conduct.[60] Thus, a company can avoid criminal liability if it can prove that the representatives established an adequate compliance system that aims at preventing bid rigging.

The Hungarian Legal Persons Criminality Act holds companies responsible if the conduct specified in Article 420 of the Criminal Code was performed with the aim of providing a pecuniary advantage for the company in question or was committed with the assistance of the company *and* by (i) the executive officer, employee, board member of the company or the agent of any of these persons or (ii) the owner or employee in connection with the business of the company while the performance of the supervisory rights of the executive officer or board members may have prevented the crime or (iii) the company achieved a pecuniary advantage and the executive officer, employee, board member of the company was aware of the crime.

In Spain, criminal sanctions may be imposed on corporations if the company has benefited from the infringement (*societas delinquere et puniri potest*). Companies are accountable in the following circumstances:

- crimes committed in the name or on behalf of the same, and for their direct or indirect benefit, by their legal representatives or by those acting individually or as members of a body of the legal entity, who are authorised to make decisions in name of the legal entity or who have organisational and control faculties within it;
- crimes committed, in the exercise of social activities and for the account and direct or indirect benefit of the same, by those who, being subject to the authority of the individuals mentioned in the previous paragraph, have been able to carry out the acts by the duties of supervision, surveillance and control of the activity that have been seriously violated by them, taking into account the specific circumstances of the case.

As regards civil actions for *damages*, the German report mentions that it is generally recognised that companies can be held liable for damages under Section 33a GWB. It should, however, be noted that German tort law does not hold employers strictly liable for all wrongs committed by their employees in the course of their employment (*respondeat superior*). Instead, according to Section 31 of the German Civil Code (*Bürgerliches Gesetzbuch* (BGB)), organisations are strictly liable only for unlawful conduct by their *representatives*, i.e. employees in managing roles. For torts committed by ordinary employees, organisations are liable under Section 831(1) BGB only if they cannot show that their representatives selected those employees with due care and supervised them properly.

[59] OGH 17.11.2015, 14 Os 96/15x.

[60] *Lewisch*, Criminal Liablity of Companies, Lex Mundi Publication 2008 at p 5.

#### 1.2.4.2 Within the Corporation: Individual Sanctions Against Managers and Employees

Individuals employed by a company may face monetary consequences in two ways: they may be directly targeted by the competition authority or criminal prosecutors or even by customers that suffered damage for infringing substantial or procedural competition rules. Alternatively, they may be sued by the corporation as their employer, basically trying to shift the burden of fines imposed on the company to the rogue employee.

##### 1.2.4.2.1 Criminal and Administrative Individual Sanctions

In a few countries, individual competition law sanctions can be imposed not only on companies but also on directors and employees if they participate in an unlawful practice. There is another way how authorities can reach individuals: in most jurisdictions, natural persons can also be fined for procedural breaches of the law or for failing to implement a decision (for example, destroying documents or providing false information). In most countries, however, authorities prefer to employ the traditional sanctions against companies.

A few countries have introduced *administrative monetary sanctions* against individuals for breaching competition rules (mainly cartels):

– A legislative change in 2013 has made it possible for the Belgian Competition Authority to impose sanctions on individual directors, managers and ordinary employees for cartel infringements. It is now unlawful for a natural person to—in the name of and for the account of a company or professional association—negotiate or make agreements with competitors on (i) setting prices for the sale of products and services to third parties, (ii) limiting production or the sale of products or services and (iii) allocating markets.[61] Article IV.70 provides for an administrative fine for breaches of that provision of between 100 and 10,000 euro. This could be imposed in the same procedure that was launched against undertakings.[62]
– In Hong Kong, the breach of recently adopted competition rules can be committed by any 'persons', which implies also natural persons.[63]
– In Germany, fines may be imposed against representatives, that is individual employees in management roles, if the infringement was committed intentionally or negligently. To allow for individual liability with regard to organisational offences, Section 9 OWiG extends the 'special personal characteristics' of organisations to their representatives, i.e. individual employees in managing roles. It thus becomes possible to treat these individuals as 'undertakings' in terms of competition law and hold them liable for competition law infringement that they committed or could have prevented if they had better supervised their subordinates.

[61] Article IV.1, section 4, of the Code of Economic Law.

[62] However, there have been no such decisions yet.

[63] Section 91 of the Competition Ordinance.

– In Spain, individuals who are legal representatives or companies involved in the unlawful action will be sanctioned with a fine of up to EUR 60,000. A regular employee will not be sanctioned by competition authorities.

Most of the jurisdictions have, however, administrative rules targeting individuals when a *procedural breach of the law* can be established. This may involve obstructing, delaying the investigation or destroying evidence.

– In Belgium, the text of the law extends this procedural sanction not only to undertakings but more generally to 'persons' without being clear as to how the fine would be calculated in the absence of a turnover attributable to such person. The law provides for a maximum of 1% of the turnover of the undertaking, which cannot be translated to the financial capabilities of individuals.
– Under the Hungarian Competition Act, a procedural fine may be imposed on companies or on individuals if their conduct has the object or result of delaying the investigation or preventing the establishment of the facts of the case. The maximum procedural fine in case of companies is 1% of the net turnover in the preceding business year and five hundred thousand forints (about EUR 1650) for individuals.
– In Switzerland, individuals acting for an undertaking who violate a settlement, a final decision of the competition authorities, may be fined up to CHF 100,000. In addition, any individual who intentionally does not comply with a ruling of the competition authorities concerning the obligation to provide information, who implements a concentration that should have been notified without filing a notification or who violates rulings relating to concentrations of undertakings is liable to a fine of up to CHF 20,000.

Other administrative sanctions, such as *disqualifications,* exist. In countries with individual criminal liability, the judge may also disqualify the convict from engaging in his or her profession.[64]

– According to the recent competition law in Hong Kong, the Competition Tribunal could issue a disqualification order against a director if such director has contravened a competition rule and that the director is unfit to manage a company.[65]
– In the UK, the Court may issue a director disqualification order (DDO) upon the director of a company who has infringed competition law, disqualifying that person as a director for up to 15 years where the director's conduct makes him/her 'unfit' to be concerned in the management of the company.[66] A 'breach of competition law' is defined by reference to the *civil* prohibitions on anti-competitive behaviour (i.e. Chapters I and II of CA98 and Articles 101 and

[64] See for example Germany, section 70 StGB.
[65] Sections 101–102 of the Competition Ordinance.
[66] Section 9A Company Directors Disqualification Act (as amended).

102 TFEU) and not cartel offences. As an alternative to being struck off by court order, a director may agree to give an undertaking not to be a director, or take other specified action regarding the formation and management of a company, for up to 15 years[67] (a director disqualification undertaking (DDU)). To enforce this prohibition, a person who has been disqualified, whether through a DDO or a DDU, is guilty of an offence punishable by imprisonment of up to 2 years if he/she acts as a director[68] and may be held personally responsible for the company's debts.[69] The CMA has stepped up director disqualification in recent years but has not updated the original guidance issued by the OFT.[70] Additionally, UK regulatory bodies with the power to fine and ban members/authorised persons may take action upon being presented with evidence of an individual's involvement in cartel activity.[71]

– Sweden also introduced trading prohibitions that cover individual violators. Chapter 3, Section 24, of the Act refers to the Trading Prohibitions Act, which applies where there has been an infringement of Chapter 2, Section 1, of the Act and/or Article 101 TFEU. Section 7 of the Trading Prohibitions Act[72] stipulates that a disqualification order shall be issued against anyone in a management position who has seriously disregarded his/her obligations arising from such position by engaging in price fixing, market sharing or market allocation activities contrary to Chapter 2, Section 1, of the Act and/or Article 101 TFEU. This provided that the 'general interest' requires the imposition of a trading prohibition.[73] Not only direct involvement but also failure to take appropriate measures against such activities may trigger a trading prohibition. The duration of a trading prohibition shall be no less than 3 and no longer than 10 years.[74] As for the procedure governing trading prohibitions, it is the SCA that makes the request to the court. This could be done either in the same proceeding that targets the undertaking or in a separate proceeding.[75]

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67 *Ibid,* Section 9B.

68 *Ibid,* Section 13.

69 *Ibid,* Section 15.

70 OFT510, 1 June 2010. Note that the CMA announced on 4 June 2018 that it would be revising OFT510. At the same time as this announcement, the CMA deleted a paragraph from OFT510 in recognition of the fact that, in order for an appeal against a DDO to be heard in the CAT the same time as an appeal against an infringement decision or penalty, disqualification proceedings would need to start earlier than provided for in the now-deleted paragraph of OFT510.

71 For example, on 5 March 2018, the FCA announced that it had fined a trader for improperly influencing LIBOR submissions, as well as banning him from performing any function in related to any regulated financial activity. See press release dated 5 March 2018 available at https://www.fca.org.uk/news/press-releases/fca-fines-and-bans-former-deutsche-bank-trader-guillaume-adolph. Accessed 6 June 2018.

72 *Sw. Lag om näringsförbud* (SFS 2014:836).

73 *Sw. Påkallat från allmän synpunkt.*

74 Section 10.

75 See Section 17 of the Trading Prohibitions Act.

Obviously, the most severe individual sanctions are *criminal* ones. Criminal rules ordering a jail sentence of up to 3 or 5 years can be found in most countries for public procurement cartels. Criminal fines are another, though less used, possibility. Finally, many countries allow disqualification, and confiscation, as additional criminal sanctions. There are no criminal sanctions at all in Belgium, Switzerland and Sweden.

– In Austria, anti-competitive behaviour in the context of public procurement procedures may lead to criminal sanctions. According to Sec 168b of the Austrian Criminal Code (*Strafgesetzbuch*), rendering a tender or carrying on negotiations based on an unlawful agreement with the aim of inducing the contracting body to accept a certain tender is an offence. Similarly, collusive tendering may be qualified as fraud (Sec 146 et seq of the Austrian Criminal Code) if it is demonstrated that the agreement caused damage to the contracting body.[76] As a prerequisite for criminal sanctions, Section 146 and Section 168b of the Austrian Criminal Code require that the public prosecutor prove that the infringement has been committed intentionally. Section 168b offences may be punished with a maximum imprisonment of 3 years, Section 146 et seq with up to 10 years if the damage caused by the collusive tendering exceeds EUR 300,000. According to established case law, the damage can be determined by comparing the difference between a hypothetical competitive price and the actual price that resulted from the collusive tendering.[77]
– Brazilian criminal law provides for imprisonment between 2 and 5 years.
– In France, Article L. 420-6 of the Commercial Code provides that it is punishable by imprisonment of 4 years and a fine of EUR 75,000 for any natural person to fraudulently take personal and decisive part in the design, organisation or implementation of practices referred to in Articles L. 420-1, L. 420-2 and L. 420-2-2. In addition, the court may order that its *decision be published* in full or by extracts in the newspapers it designates, at the expense of the convicted person.
– Under German law, anyone who, upon a call to tender goods or commercial services, enters a bid based on an unlawful agreement whose purpose is to cause the organiser of the procurement procedure to accept a particular bid shall be punished by imprisonment not exceeding 5 years or a criminal fine, according to Section 298 StGB. The provision applies not only to representatives but also to ordinary employees. On the other hand, there is no corporate criminal liability in Germany.
– In Hungary, pursuant to Article 420 of the Criminal Code, any person who enters into an agreement aiming to manipulate the outcome of an open or restricted procedure held in connection with a public procurement procedure or an activity that is subject to a concession contract by fixing the prices, charges or any other term of the contract, or for the division of the market, or takes part in any other

[76] *Kirchbacher* in Höpfel/Ratz, WK$^2$ StGB section 168b at recital 6.
[77] OGH 28.6.2000, 14 Os 107/99.

concerted practices resulting in the restraint of trade is guilty of felony punishable by imprisonment between one and 5 years. Criminal fines are not available; however, disqualification can be ordered. The Hungarian Criminal Code also provides for the imposition of criminal sanctions on any person who participates in the decision-making process of an association, a public body, a grouping or similar organisation and adopts any decision that has the capacity for restraining competition aiming to manipulate the outcome of an open or closed public procurement procedure or an activity that is subject to a concession contract. Any person who commits the felony of bid-rigging cartel as a *recidivist* or as a habitual recidivist may be sentenced to 1.5–7.5 years (instead of the original punishment of 1–5 years) in prison.
– Under Article 262 of the Spanish Criminal Code, the manipulation of public tenders is considered a felony. In such cases, the criminal courts can impose additional custodial sentences (between 1 and 3 years), fines (12 to 24 months) and special disqualifications to participate in judicial auctions or public tenders (between 3 and 5 years). The latter might be imposed on both individuals and legal entities.
– In the UK, on summary conviction, the cartel offences are punishable by imprisonment of up to 6 months, an unlimited fine[78] or both.[79] On conviction on indictment, the cartel offences are punishable by imprisonment of up to 5 years, an unlimited fine or both.[80] The original cartel offence had a dishonesty requirement. During the period in which the original cartel offence was in force, the *Ghosh* test[81] was the test used to ascertain whether a defendant had been dishonest. In order to be held to be dishonest under the *Ghosh* test, a defendant must be found (i) to have acted in a manner that a reasonable and honest person would consider to be dishonest and (ii) to have known that his or her actions were dishonest in the eyes of a reasonable and honest person. The second limb of the *Ghosh* test was struck down by the UK Supreme Court in 2017,[82] meaning that a defendant no longer needs to have known that her actions were dishonest in order to be held to have been dishonest. Case law in English law is retrospective, unlike the vast majority of criminal statutes, including the new cartel offence, meaning that the revised *dishonesty* test will apply to any future prosecution based on the original cartel offence, i.e. for conduct predating 1 April 2014. Due to the dishonesty requirement, it is possible for one individual within a cartel arrangement to have committed a cartel offence while the others did not. For example, in

[78] As with all other unlimited fines referred to in this Report which may be imposed upon summary conviction, the legislation refers not to an unlimited fine but to the 'statutory maximum'. The statutory maximum is now unlimited (section 85 of the Legal Aid, Sentencing and the Punishment of Offenders Act 2012).

[79] Section 190(1)(b) EA02.

[80] Section 190(1)(a) EA02.

[81] From *R v Ghosh* [1982] EWCA Crim 2.

[82] In *Ivey v Genting Casinos (UK) Ltd t/a Crockfords* [2017] UKSC 67.

in original cartel offence case CE/9705/12 (*Precast Concrete Drainage Criminal Investigation*), the only individual found guilty had signed a competition compliance policy.[83] Signing a compliance policy amounted to a dishonest misrepresentation of his actions to the wider business.

– The new cartel offence does not have a dishonesty requirement; however, there are two new sections setting out the circumstances in which the new cartel offence is not committed[84] and the defences to the new cartel offence.[85] The exemptions all relate to where the prima facie infringements have been publicised in some way. Two out of the three defences also concern information disclosure. A defendant can prove that, at the time of making the arrangements, he or she did not intend to conceal the nature of the arrangements from customers or the Competition and Markets Authority. It can also show that he/she took reasonable steps to ensure that the arrangements in question were disclosed to professional legal advisors for the purposes of obtaining advice about them before making or implementing the arrangements.[86] Notably, it is irrelevant whether or not legal advice was given or (if it was) what that legal advice actually *said.* These exemptions and defences can be read together as having created a bespoke definition of honesty, which supplants that of the average reasonable person. A defendant is innocent of the new cartel offence if he/she has not concealed the cartel arrangements or if he/she took legal advice on the subject.
– In the UK, upon conviction of any offence in the Crown Court, the court must proceed to a confiscation hearing where it believes that it's appropriate to do so or upon the request of the prosecutor.[87] A *confiscation order* is designed to confiscate from the defendant the gains that were made as a result of the criminal activity. The presumptions related to whether a defendant's property or expenditure has come about as a result of a defendant's criminal conduct depend on whether or not the defendant has a 'criminal lifestyle'.[88] Given that a defendant who commits an offence of more than 6 months and obtains a benefit of at least GBP 5000 is regarded to have a criminal lifestyle, it is very possible (given the long term nature of most cartels before discovery) that a criminal cartelist would be found to have had a criminal lifestyle.

Some jurisdictions allow individual *criminal sanctions* for *obstructing the investigation*, as opposed to material infringement of competition rules. In Austria, provisions imposing criminal liability for procedural breaches (e.g. destroying documents) are in place.[89] In Hong Kong, custodial sanction is available not for anti-competitive actions but only for procedural and enforcement-related

[83] Precast Concrete Drainage Criminal Investigation, sentencing hearing 15 September 2017.
[84] Section 188A EA02.
[85] Section 188B EA02.
[86] Section 188B(3) EA02.
[87] Section 6, Proceeds of Crime Act 2002.
[88] Sections 10 and 75, POCA.
[89] See Sec 229 of the Austrian Criminal Code.

infringements (criminal sanctions on corporations are also available). In Hungary, certain types of procedural breaches concerning administrative proceedings are criminalised: the violent obstruction of administrative proceedings (where a person acts in such an anti-social or violent conduct that is capable of undermining, embarrassing, obstructing or preventing the authority's discharge of its duties)[90] and the submission of a wilfully misleading complaint to the authorities or the breaking of a seal in connection with dawn raids. The Italian Civil Code prescribes a penalty for the obstruction of the exercise of the functions of supervision, applicable also to independent authorities such as the IAA.[91] In the UK, providing false or materially misleading information to the CMA in the course of the CMA's enforcement of its CA98 investigations, either knowingly or recklessly, is an offence punishable by an unlimited fine on summary conviction and an unlimited fine and 2 years' imprisonment if convicted on indictment.[92] Destroying or falsifying documents requested by the CMA under its CA98 powers is also punishable by the same sanctions,[93] as is the obstruction of an officer exercising the CMA's powers of entry to a premise with a warrant.[94] The most serious ancillary penalties in relation to the cartel offences are for the falsification, destruction, concealment or disposal of documents where a person knows or suspects that a cartel offence investigation is or is likely to be carried out.[95] Here the penalties are up to 6 months' imprisonment and an unlimited fine upon summary conviction and up to 5 years' imprisonment and an unlimited fine upon conviction on indictment.

Individuals who took part in anti-competitive conduct may also face indirect financial consequences. Companies may seek reimbursement from their representatives, or the other way around, representatives can seek indemnification or liability insurance from their organisations. In most jurisdictions, corporations can *sue for damages* their employees or directors who participated in the unlawful conduct. Different rules may apply to directors and to other employees. These rules are a matter of national company or labor/employment laws. In most countries, however, suing employees has not become a routine. This lack of intra-company follow-on damage actions is due to many factors. In many cases, the cartel promoted by the employee may have been profitable, outweighing the loss suffered by fines.[96] In other countries, like the UK, the undertaking that has been fined is prevented through the maxim *ex turpi causa non oritur actio*[97] from retrieving fines imposed

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[90] Article 279 of the Criminal Code.

[91] Article 2638 of the Italian Civil Code.

[92] See Section **Fehler! Verweisquelle konnte nicht gefunden werden.** for an explanation of the difference between summary conviction and conviction on indictment.

[93] Section 43 CA98.

[94] Section 42 CA98.

[95] Section 201(5) EA02.

[96] Other sanctions, like private damage actions and a measarbale loss of goodwill of companies do not push the scale down.

[97] 'A claimant may not recover for damage which is the consequence of her own criminal act': see *Safeway Stores Ltd v Twigger* [2010] EWCA Civ 1472, paragraph 27.

by a competition authority (or, by implication, competition damages) from the individual who implemented or failed to prevent a breach of competition law.

#### 1.2.4.2.2 Civil Liability of Directors

Individuals can also be sanctioned indirectly in a follow-on procedure brought by their employer:

– In Austria, *company law* provides that directors may have to compensate a company for damages that occurred through an infringement of competition law.[98] A company may therefore recover from its representatives cartel fines, the costs for litigation, as well as compensation paid to aggrieved parties. In Austrian scholarship, there is unanimous consent that the damage that a company can claim from its representatives or its employees is reduced by the benefits it could gain from the anti-competitive conduct.[99] These benefits could be imputable to higher profits and lower production costs, which may result from anti-competitive agreements.[100] Furthermore, it is also argued that if the legal situation is unclear, representatives should only be required to undertake a thorough legal analysis (with the help of legal experts).[101] They may even opt for such a strategy, which involves a certain risk of falling foul of competition law, if this risk is outweighed by potential profits.[102] Representatives should thus not be blamed if the competition authorities decide differently from what competition law experts expected. Under Austrian *criminal law*, passing on the corporate (criminal) punishment on representatives or employees is prohibited.[103] This prohibition applies only for the fine that was imposed as a punishment. A company may thus recoup costs for litigation from the individual offender.[104]
– According to the Belgian report, *damages actions* are unlikely to be directed against individuals. Companies can generally hold their directors liable for unlawful acts committed by them in their position as director through a so-called *action mandati*. This corporate action can only be brought by the board of directors or a special proxy holder, acting on a majority decision of the general meeting of shareholders, or by the minority shareholders who jointly owe a set number of company shares and have not voted in favour of a grant of

[98]Sec 25 Act on private limited companies (*GmbH-Gesetz*) and Sec 84 Act on public limited companies (*Aktiengesetz*).

[99]See *Engin-Deniz/Kaindl*, Haftung von GmbH-Geschäftsführern und AG-Vorstandsmitgliedern bei Wettbewerbs- und Immaterialgüterrechtsverletzungen, ecolex 2012, 947.

[100]*Kusznier*, Vorteilsanrechnung bei Vorstandshaftung, GesRZ 2017, 156 at page 159.

[101]*Leupold/Ramharter*, Nützliche Gesetzesverletzungen – Innenhaftung der Geschäftsleiter wegen Verletzung der Legalitätspflicht? GesRZ 2009, 253 at page 265.

[102]*Engin-Deniz/Kaindl*, Haftung von GmbH-Geschäftsführern und AG-Vorstandsmitgliedern bei Wettbewerbs- und Immaterialgüterrechtsverletzungen, ecolex 2012, 947.

[103]Sec 11 of the Austrian Statue on the Responsibility of Legal Entities.

[104]Legislative records EBRV 994 BlgNR 22. GP 30.

discharge for the directors.[105] Through *action mandati*, the company can hold directors liable for breaches of their management duty and, more specifically, their duty to act according to how a competent, careful, and diligent director would under the same circumstances.[106] However, courts will in principle defer to a director's judgment and discretion and can only find a breach where the director's behaviour appears manifestly wrongful.[107] A breach of competition law committed by a director could be considered a breach of that director's management duty and hence could lead to an *actio mandati*. However, our research could not uncover any cases where a company has in fact sued its own directors for breach of competition law.

– In France, executive officers can be sued for damages if they breach a legal provision or commit fault of particular gravity and that is incompatible with the normal exercise of their functions in the company.[108] Officers as shareholders or associates (depending on the type of company) may sue the directors for compensation of the damages suffered by the company to which has been attributed the anti-competitive practice and who has been condemned to pay a financial penalty and/or damages for anti-competitive practices. An action for compensation may be exercised *ut universi* by its legal representatives.[109] This would happen when the management of the company has changed and where the new directors decide to take steps against the former ones. This action is not very common, but an illustration exists: the new leaders of a company, who were condemned to pay a penalty by the Competition Council, acted against the former president, who was a party to the original agreement; the latter was ordered to compensate the damages caused to the company by paying an amount corresponding to the entire financial penalty.[110] An action for compensation for the damage suffered by the company may also be exercised, *ut singuli*, by a shareholder or partner in lieu of the executive officers who would refuse to do so.[111] However, according to the national report, this action has been used in case of conviction of a company for anti-competitive practices.

[105] Articles 289, 290 and 561 Companies Code.

[106] H. Braeckmans and R. Houben, Handboek vennootschapsrecht, Antwerp, Intersentia, 2012, p. 335.

[107] P. Verschelden, P. Meeuwssen, and J. Laurijssen, Aansprakelijkheid van bestuurders en zaakvoerders, Mechelen, Kluwer, 2011, p. 9; H. Braeckmans and R. Houben, Handboek vennootschapsrecht, Antwerp, Intersentia, 2012, p. 336.

[108] Court of Cassation, Commercial Chamber, 9 March 2010, n° 08-21.547.

[109] See Article L. 223-18, first paragraph for limited liability companies, L. 225-51-1, first paragraph, L. 225-56, first paragraph, L. 225-66 and L. 225-251 for public limited companies, L. 227-6, first paragraph and 3 for simplified joint stock companies, L. 222-2 for limited partnerships and L. 221-3 paragraph 1 for partnerships, 1850 of the Civil Code for civil societies.

[110] Court of Appeal of Aix-en-Provence, 2nd Chamber, 4 December 2008, SA Eurelec Midi Pyrénées c/ Max D., R. G. n° 07/09250.

[111] Article L. 223-22 paragraph 3 for limited liability companies, L. 225-252 of the Commercial Code for public limited companies, L. 226-1 paragraph 2 and L. 227-8 for simplified joint stock companies, Article 1843-5 paragraph 1 of the Civil Code for civil companies.

– German corporate law considers managers to hold a so-called duty of legality (*Legalitätspflicht*), which means that they must comply with the law.[112] A manager violating a statutory rule of conduct, such as competition law, also breaches his or her duty of care towards the organisation and may be liable to pay damages. However, the Regional Labour Court of Düsseldorf held that a corporation may not claim *reimbursement for a fine*, which was specifically addressed to that corporation.[113] The case followed a decision by the Bundeskartellamt, which had fined four undertakings for having participated in a rail cartel but had not imposed a fine on any individual manager or employee.[114] The labour court argued that reimbursement would undermine the Bundeskartellamt's decision since it had to be assumed that the competition authority wilfully abstained from fining individuals.[115] Furthermore, the possibility of reimbursement alone would threaten the purpose of corporate fines under Section 81(1)–(3) GWB, which is to make undertakings comply with the competition rules (general and specific deterrence).[116] The Federal Labour Court overruled the decision, finding that these are questions of competition law rather than labour law and found the lower court to lack competence.[117] The case is to be decided again, this time by the antitrust division of the Regional Court of Dortmund.[118] The scholarly debate has produced all kinds of proposals for solving the problem, ranging from full immunity to full managerial liability.[119] An intermediate position is to allow for reimbursement but limit the extent of liability to EUR 1 million, which is the maximum amount that an individual could be fined under Section 81(4)(1) GWB.[120]
– According to the Hong Kong report, a company might be able to sue its directors and senior employees for breach of fiduciary duties owed to the company.

[112] Section 43(2) of the Limited Liability Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung – henceforth: GmbHG) and section 93(2) of the Stock Corporation Act (Aktiengesetz – henceforth: AktG).

[113] Regional Labour Court of Düsseldorf, Partial Judgment of 20 January 2015 – 16 Sa 459/14 (DE).

[114] Bundeskartellamt, Case Report of 14 December 2012 – B12-11/11 (DE).

[115] Regional Labour Court of Düsseldorf, paras. 160–161 (DE).

[116] Regional Labour Court of Düsseldorf, paras. 166–167 (DE).

[117] Federal Labour Court, Judgment of 29 June 2017 – 8 AZR 189/15 (DE).

[118] Regional Labour Court of Düsseldorf, Order of 29 January 2018 – 14 Sa 591/17 (DE).

[119] See, e.g., H-J. Bunte, Regress gegen Mitarbeiter bei kartellrechtlichen Unternehmensgeldbußen, NJW 2018, pp. 123–126; M. K. Thelen, Geschäftsleiterhaftung für Kartellrechtsverstöße – Umweg über Erfurt, WuW 2018, pp. 17–19; K. Labusga, Die Ersatzfähigkeit von Unternehmensgeldbußen im Innenregress gegen verantwortliche Vorstandsmitglieder, VersR 2017, pp. 394–402; M. Zimmer and M. Walther, Kartellanten und Böllerwerfer – Bußgeldregress beim Verursacher, BB 2017, pp. 629–632; F. C. Haus, A. Herb and M. Kempermann, Wenn Kartellanten nachkarten – haften Geschäftsleiter und Arbeitnehmer für Geldbußen und Schadensersatz?, ZWH 2016, pp. 7–16; C. Kersting, Organhaftung für Kartellbußgelder, ZIP 2016, pp. 1266–1275; B. Grunewald, Die Abwälzung von Bußgeldern, Verbands- und Vertragsstrafen im Wege des Regresses, NZG 2016, pp. 1121–1124.

[120] By way of comparison, the claimant in the rail cartel case seeks to reimburse EUR 191 million.

- Under the Hungarian labour rules, CEOs and other senior members of management are liable for the full amount of damage caused to their employer (for more details, see the section on employees). Under the Hungarian civil law rules, the director causing damage to the undertaking shall be relieved of liability if he/she is able to prove that the damage occurred as a consequence of unforeseen circumstances beyond his/her control and there had been no reasonable cause to take action to prevent or mitigate the damage.
- In Italy, directors must carry out their tasks in compliance with the obligations imposed on them by the law and by-laws with the diligence requested by the nature of their office and their specific competences. Directors are jointly liable to the company for the lack of compliance to such obligations. Directors are also liable to the shareholders and the creditors of the company if their lack of compliance causes prejudice to the company's equity. The Italian Civil Code provides for the possibility for shareholders and creditors to start specific corporate liability actions aimed at obtaining the compensation for damages suffered.
- In Switzerland, there are no known court cases where corporations sued their directors for damages that occurred due to breaches of competition law. This is mainly due to the burden of proof that a corporation would have to bear in such a case. The conditions for employees or directors' liability for a breach of duty[121] are very high. First, damage in the legal sense is required (i.e. the payment of the antitrust fine). Second, a breach of duty is required, i.e. a violation of the duties imposed by law or the articles of association. In this context, a breach of competition law could be considered a breach of duty. Third, there would need to be a natural causal link and an adequate causal link between the unlawful behaviour and the damage, which means that the behaviour of the corporation would need to have caused the sanction imposed by COMCO. Fourth, culpability is required; however, both negligent and intentional acts are sufficient to establish liability. Even the slight negligence would be sufficient to justify liability.

Civil liability of representatives may arise directly or indirectly in a suit brought by injured third parties (i.e. customers).

- In the Austrian case law, it is established that the representatives of a company may be held personally liable by an aggrieved party if their individual fault can be proven.[122] As for an infringement of competition law, members of the board of directors may face claims for damages if they either[123] were personally involved in the infringement or did not take any steps against the infringement, even if they knew (or negligently did not know) of the infringement. Representatives and the company infringing competition law might be held jointly and severally liable. In legal scholarship, it is argued that claims for damages against representatives of the company should be limited to cases where representatives acted

[121] According to art. 754 CO.

[122] OGH 30.8.2016, 8 Ob 62/16z.

[123] See OGH 14.2.2012, 5 Ob 39/11p.

intentionally.[124] The national report argues that civil liability of representatives for infringements of competition law should be limited by the fact that the Austrian Cartel Act applies to undertakings only, not the decision-maker.

– In France, the executive officer incurs personal civil liability only exceptionally, when he commits a fault separable from his functions. According to case law, this is the case when he commits 'intentionally a fault of a particular gravity incompatible with the normal exercise of social functions'[125] or an intentional criminal offence.[126]
– In Germany, although Section 33a GWB refers to 'anyone' infringing a substantive provision of German or EU antitrust law as liable to pay damages, German lower courts tend to be sceptical about extending this to individuals. A provision like Section 9 OWiG, which extends the 'special personal characteristics' of organisations to their representatives for the purpose of establishing regulatory offences, does not exist in German tort law. Thus, it is argued that individuals cannot be liable as tortfeasors but can only be accountable as instigators or accessories according to Section 830(2) BGB.[127] On the other hand, scholars have argued that Section 9 OWiG should be applied by analogy also in cases concerning damages.[128] Others recognise the possibility of individual liability without explaining how it could be constructed.[129]
– In the UK, the maxim *ex turpi causa non oritur actio*, which prevents undertakings from claiming damages from their competition-law-infringing employees, would not apply to a competition damages claimant. This means that competition damages are, theoretically, available from the individuals involved in a competition law infringement. The author of the UK report was unaware of any attempt by a cartel victim[130] to bring a damages action against an individual in the English Court for a breach of competition law.

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[124] *Kalss*, Außenhaftung der Leitungsorgane gegenüber Gesellschaftern und Dritten, in Artmann/Rüffler/Torggler, Die Organhaftung zwischen Ermessensentscheidung und Haftungsgefälle (2013), see also *Koppensteiner*, Zur Außenhaftung von Geschäftsführern und Vorständen, GES 2015, 379, who generally questions the concept of civil liability of directors for competition law infringements.

[125] Court of Cassation, Commercial Chamber, 20 May 2003, n° 99-17.092.

[126] Court of Cassation, Commercial Chamber, 28 September 2010, n° 09-66.255.

[127] For an example, see Higher Regional Court of Düsseldorf, Judgment of 13 November 2013 – VI-U 11/13 Kart (DE), NZKart 2014, pp. 68–72.

[128] E. Rehbinder, section 33 GWB. In: Loewenheim et al. (eds), Kartellrecht, 3rd ed, C.H. Beck 2016, para. 39; V. Emmerich, section 33 GWB. In: Immenga and Mestmäcker, Wettbewerbsrecht, vol. 2, 5th ed, C.H. Beck 2014, para. 31; M. Dreher, Die persönliche Außenhaftung von Geschäftsleitern auf Schadensersatz bei Kartellrechtsverstößen, WuW 2009, pp. 133–143; opposed by E. Eden, Haften Geschäftsführer persönlich gegenüber Kartellgeschädigten auf Schadensersatz? WuW 2014, pp. 792, 794–796; E. Eden, Persönliche Schadensersatzhaftung von Managern gegenüber Kartellgeschädigten, Nomos 2013, pp. 116–147.

[129] G. Meeßen, Der Anspruch auf Schadensersatz bei Verstößen gegen EU-Kartellrecht – Konturen eines Europäischen Kartelldeliktsrechts?, Mohr Siebeck 2011, pp. 367–375.

[130] Rather than the undertaking fined for the cartel activity: see *Safeway Stores Ltd v Twigger* [2010] EWCA Civ 1472.

The small chance of being sued or fined as an employee is also reflected in the policies of insurance companies: if there is a real chance for suing for damages, the director of insurance policies would cover this risk. In France, Article L. 113-1, paragraph 2, of the Insurance Code provides that the insurance does not cover loss and damage resulting from an intentional or fraudulent fault of the insured person. For the purposes of this text, intentional fault is understood more strictly than under civil liability law: the author of the fault must have wished not only the action or omission at the origin of the damage but also the damage itself,[131] as it happened.[132] In the UK, the individual may have sufficient resources to pay the damages claimed by virtue of her directors and officers liability insurance (D&O). While D&O policies in the UK exclude from cover claims resulting from the insured's dishonest or criminal behaviour (meaning that any liability resulting from the commission of the cartel offences would be excluded), they can sometimes make limited exceptions in relation to civil penalties. It is therefore technically possible for a D&O policy to pay out for competition damages for an individual's non-criminal but still unlawfully anti-competitive acts.

#### 1.2.4.2.3 Civil Liability of Employees

The rules on employees' liability differ across jurisdictions covered by this study:

- In Austria, if an employee has negligently harmed his/her employer, the judge may lower the amount the employee has to reimburse the employer.[133]
- Belgian rules protect employees from the risk of civil liability they are exposed to during their employment, except in cases of fraud or grave error.[134] Employees can also be held liable in case of minor errors if they commit them habitually. In order to establish fraud, it must be proven that the employee not only wants to cause the harmful fact but also intends its harmful consequences. A grave error, on the contrary, requires that the employee commit an unintentional error that is so severe and extreme that it cannot be excused.[135] There is no precedent as to how these provisions would be interpreted in a competition law case.

[131] Court of Cassation, Civil Chamber, 1st, 2 February 1994, Bull. civ. I, n° 37.

[132] Court of Cassation, Civil Chamber, 1st, 27 May 2003, Bull. civ. I, n° 125; Court of Cassation, Civil Chamber, 2nd, 18 February 2010, n° 08-19044.

[133] Sec 2 of the Employees Liability Act (*Dienstnehmerhaftpflichtgesetz*).

[134] Article 18 of the Labour Agreements Act of 3 July 1978 creates an immunity for employees from civil liability for acts committed during the performance of their labour agreement. This immunity has a broad scope, and covers not only breaches of the labour agreement, but also wrongful acts other than breaches of contract committed during the performance of their labour agreement. See also Cass. 14 February 2003, Arr.Cass. 2003, p. 409.

[135] W. Van Eeckhoutte, Sociaal compendium 2017-28. Arbeidsrecht met fiscale notities, band 1, Mechelen, Kluwer, 2017, p. 870.

– In France, when the employee may be held liable by the victim of anti-competitive practices for criminal misconduct or wilful misconduct, the employer could exercise, provided he has compensated the victim for its loss, an action for contribution. On the other hand, where the employer's insurer has taken over the compensation of the victim, Article L. 121-12, paragraph 3, of the Insurance Code provides that 'the insurer has no action against (. . .) subordinates, employees, (. . .), except in the case of malicious act committed by one of these people'.
– In Germany, employees can be sued for breach of their employment contracts. Limitations from labor law only apply to ordinary negligence, but employees remain liable for grossly negligent and intentional offences (which likely includes 'typical' competition law offences). However, no such cases are reported, and the German report would consider them unlikely.
– Under the Hungarian Labour Code, employees can be held liable for damages caused by breach of their obligations under the employment relationship. Employees are required to act as reasonably expected during their employment and are liable for any damages caused by their failure to act according to this standard. The liability of non-manager employees is capped at 4 months of their salary (unless the damage is caused intentionally or through gross negligence). It could be argued that personal participation in a cartel infringement at least amounts to gross negligence (especially if the given employee was provided with proper competition law training and was under the specific obligation to observe competition law rules under the company's compliance policies). The company's claims against employees can be enforced through labour courts, and claims would typically rely on the HCA's decision establishing the employer's liability.
– In the UK, the maxim *ex turpi causa non oritur actio* prevents undertakings from claiming damages from their competition-law-infringing employees.
– In Switzerland, only the person entrusted with the management of the undertaking may be held liable for a breach of its duties, not just any employee of the undertaking.

#### 1.2.4.3 Beyond Corporate Veil: Parental Liability

Considering the whole chain of persons who could be involved in antitrust infringements, we look beyond the boundaries of legal persons and investigate how national jurisdictions deal with parental liability and the liability of members of an association for the conduct of the latter. This is a rather complex issue, especially if we take into account that criminal, administrative and civil laws might have different approaches even in the same jurisdiction. In the administrative legal context, the parent–subsidiary relationship can be of relevance from three aspects: (i) liability for the infringement, (ii) including the parent's turnover into calculating the maximum for the subsidiary and (iii) obliging the parent company to pay the fine if the subsidiary fails to do so.

Under EU law, according to the *Akzo* doctrine,[136] where the parent holds a 100% shareholding in a subsidiary, there is a rebuttable presumption that the parent exercises decisive influence over the conduct of the subsidiary.[137] If a subsidiary is fully owned by the parent, consequently the claimant is not required to find additional evidence that the parent controlled the subsidiary.[138] This rule has been extended to cases where the company owns almost all of the shares of the subsidiary.[139] The rationale of the presumption is to ensure the effective enforcement of competition rules through avoiding situations where the parent company would escape liability or unduly reduce the sanctions by using its subsidiary to implement anti-competitive practices for the benefit of the group.[140] This came, however, at the expense of the well-established company law principle of corporate individual liability.[141] We should bear in mind that as long as EU law defines undertakings at a group level, the principle that penalties should be applied solely to the offender is not infringed.[142]

It has been argued that, in practice, it is very difficult to rebut the presumption of control.[143] Without the aforementioned presumption, a two-step test has to be applied for holding the parent company liable for an infringement by the subsidiary: (i) first, is the parent capable of exercising decisive influence over the conduct of the subsidiary, and (ii) second, has the parent company actually exercised decisive influence over the subsidiary? According to established case law, a parent company holding a majority shareholding in the subsidiary is able to exercise decisive influence over the subsidiary's conduct.[144] By the same token, a 25% shareholding alone is not sufficient to conclude that a parent company is able to exercise decisive control over the subsidiary.[145] However, even a minority shareholding may enable a parent company to exercise decisive influence over the subsidiary if the parent company has greater rights than normally granted to minority shareholdings.[146] What is more, the fact that decisive influence was actually exercised might also be included in the assessment of the first step of the test.[147]

[136]The European Court of Justice's held that '*the conduct of a subsidiary may be imputed to the parent company in particular where, although having a separate legal personality, that subsidiary does not decide independently upon its own conduct on the market, but carries out, in all material respects, the instructions given to it by the parent company*' (C-97/08, Akzo Nobel/Commission, ECLI:EU:C:2009:536, pt 58).

[137]ECJ, caseC-97/08P, *Akzo Nobel*, ECLI:EU:C:2009:536, pt 60.

[138]ECJ, case C-97/08P, *Akzo Nobel*, ECLI:EU:C:2009:536, pt 61.

[139]ECJ, case C-508/11P, *Eni*, ECLI:EU:C:2013:289, pt 47.

[140]This point is emphasized by L. F. Pace, The parent-subsidiary relationship in EU antitrust law and the AEG Telefunken presumption, YARS Vol. 2014, 7(10), p. 200.

[141]See, opinion of AG Kokott in *Schindler*, Case C-501/11 P, ECLI:EU:C:2013:248, pt 64.

[142]CJEU, case C-521/09 P, *Elf Aquitaine SA v Commission*, ECLI:EU:C:2013:644, pt 59.

[143]R. Whish and D. Bailey, Competition Law, 8th ed., 2015, p. 97.

[144]GC, case T-132/07, *Fuji Electric*, ECLI:EU:T:2011:344, pt 182.

[145]ECFI, case T-141/89, *Tréfileurope,* ECLI:EU:T:1995:62.

[146]GC, case T-132/07, *Fuji Electric*, ECLI:EU:T:2011:344, pt 183.

[147]GC, case T-132/07, *Fuji Electric*, ECLI:EU:T:2011:344, pt 184.

There are jurisdictions that follow the concept of parental liability as applied by the Commission and the European Court of Justice.

- In Brazil, the Competition Protection Act is explicit in providing for joint and several liability for companies or entities belonging to an economic group when at least one of them is guilty of an offence (infraction) against the economic order.
- French courts consider that a parent company can be considered responsible for the anti-competitive behaviour of one of its subsidiaries, whether it is wholly or majority owned by the parent company. Liability may be presumed when the latter holds all or almost all the capital.[148] The Court de Cassation rejected all the arguments put forward by the parent company against the presumption, including but not limited to the fact that (i) the parent was merely a holding company simply providing financial direction, (ii) the group had very diversified activities, (iii) the mother company and the subsidiary did not exercise an activity on the same market and (iv) an autonomous local management existed within the subsidiary.
- In Germany, following the 9th Amendment of the GWB,[149] competition authorities can now impose fines also on legal persons and associations of persons who are part of the same 'undertaking' (i.e. the corporate group) and have exercised, during the time of the infringement, a 'decisive influence' over the conduct of the legal person or group of persons whose representatives infringed the competition laws. The amended German law now follows EU case law; the bill referred also extensively to the relevant EU courts' judgments.[150] There is, however, one difference: the government explicitly states in the materials that standard rules of evidence shall apply, i.e. there are *no presumptions* that the parent company is in a position to exercise a decisive influence or that it has, in fact, exercised its influence. The German report notes that the absence of presumption is not likely to make a difference. The government itself concedes that German courts routinely, and legitimately, base their convictions on common sense deductions. For instance, the BGH held that a 100% shareholding indicates a single economic entity in terms of Section 81(4)(3) GWB.[151] The BGH also held that even an 89% shareholding may support a trial court's conviction that the parent and subsidiary form a single entity if they have concluded a profit transfer agreement.[152] It is important that Section 81(3a) GWB breaks with the general rule of Sections 30, 130 OWiG that legal persons and associations of persons may

[148]Court of Cassation, Commercial Chamber, 18 October 2017, n° 16-19.120 F-PB.

[149]The amendments entered into force on 9 June 2017, see section 81(3a) GWB. Before this, parent companies could only be fined if their own representatives had either actively participated in a competition law offence or if they had violated a group-wide supervisory duty under section 130 (1) OWiG. It was, however, never clear what supervisory duties parent companies or their representatives actually have towards a subsidiary or its personnel.

[150]Legislative proposal by the Federal Government for the Ninth Amendment to the GWB – BT-Drs. 18/10207 (DE), p. 89–90.

[151]BGH, Judgment of 26 February 2013 – KRB 20/12 (DE), para. 71.

[152]BGH (note 152), para. 71.

only be liable *if their own representatives violate their duties*, either by actively committing a regulatory offence or crime or by omitting to take necessary supervisory measures. In contrast, the parent company's liability under Section 81(3a) GWB only requires that a *representative of a subsidiary* commit a competition law offence. This mechanism arguably leaves little room for a *compliance defence* on the part of the parent company.

- Hong Kong, although obviously not an EU Member State, is set to follow EU case in this respect. A parent company can be found liable for the actions of its subsidiary without direct involvement in an infringement on the basis that they are a single economic entity. At the moment, there is no case law on when a parent company and its subsidiary would be considered a single economic entity. But since the concept of 'undertaking' under the Competition Ordinance is borrowed from EU legislation, the reporter believes that EU case law will be instructive.
- In Spain, the parent company may be held jointly and severally liable for the wrongdoing of its subsidiary. The liability of the parent company is established through the economic unity doctrine. There is a presumption *iuris tantum* that the parent exerts a decisive influence in case of 100% participation of the parent company in the subsidiary.
- Ukrainian law also assumes the liability of a parent company owing 100% of the subsidiary.
- In the UK, a parent company and its subsidiaries will be treated as a single undertaking where the subsidiaries lack economic independence.[153] The CMA's practice has been to address its decisions to each of the top companies in the undertaking and (if different) the companies in the undertaking that implemented the anti-competitive arrangements, holding them jointly and severally liable for the infringement. UK competition law also considers the exercise of decisive influence in relation to wholly owned companies in the same way as the European Commission and courts, applying the test set out in *Akzo Nobel NV v Commission* in domestic cases.[154] A good illustration is the OFT's decision in 2009 on bid rigging in the construction industry.[155] The OFT took the view that companies within the same corporate group that formed a single undertaking were jointly and severally liable for the infringements. Based on this decision, the following principles can be deduced:
  - Like the Commission, the CMA will hold that the exercise of decisive influence can be presumed where a subsidiary is wholly owned by its parent, whether directly or indirectly. No further evidence is required.
  - The CMA does not need to establish that the parent did *in fact* exert decisive influence where it is able to presume that the parent held decisive influence.

[153] See OFT Guidance on Enforcement (OFT407), paragraph 5.41. This Guidance has been adopted by the CMA.

[154] E.g. in *Durkan Holdings and Others v Office of Fair Trading* [2011] CAT 6.

[155] Decision of 21 September 2009 in case CE/4327-04.

– The presumption will be further supported where additional indicia of decisive influence exist, for example the use of the same commercial logo or name, a parent being active on the same or adjacent markets to the subsidiary, direct instructions being given by a parent to a subsidiary or the two entities having shared directors.[156]
– Assertions by parties that their parent company is a holding company only or that the subsidiary has its own management board or that the parent is not involved in the subsidiary's day-to-day management are not in themselves sufficient to rebut the presumption. A parent must adduce evidence relating to the economic and legal organisational links between it and the subsidiary.

There are countries where jurisprudence as regards the existence of or conditions of parental liability is inconsistent or is still being developed by courts:

– In Austria, it is not fully clear under which circumstances cartel fines might be directly imposed on the parent company.[157] The legal entity on which the Cartel Court may impose a fine is determined by the application filed by the Federal Competition Authority or the Federal Cartel Prosecutor; they did indeed file a complaint against the parent company resulting in a fine against the parent company.[158] In *administrative* proceedings, proving the direct involvement of the parent company is not absolutely necessary for holding a parent company liable for the competition law infringements of its subsidiaries. Rather, the Austrian Supreme Cartel Court followed the ECJ's *Akzo* test in those cases that were decided in the framework of Article 101 TFEU.[159] Accordingly, there is a possibility that the Austrian courts would choose a different approach when it comes to cases that have to be decided under Austrian competition law only. However, according to the Austrian report, chances are slim that Austrian courts would adopt a deviating approach when it comes to the interpretation of domestic competition law. The report also emphasised that Austrian *criminal law* would not allow a parent company being penalised for the bid rigging of its subsidiaries without having been personally involved in the unlawful conduct.

[156]See, for example, *Sepia Logistics v OFT* [2007] CAT 13, in which the Competition Appeal Tribunal (**CAT**) confirmed the approach taken by the OFT in its decision on aluminium spacing bars. The OFT did not rely on the bare presumption of control but on the fact that the ultimate parent exercised actual control through an individual director of both the parent and subsidiary and specifically through her direct involvement in the infringement (including participation in relevant meeting).

[157]From the mere fact that the parent company's turnover is included when determining the cartel fine does not follow that a parent company should also be a party in the cartel proceedings.

[158]OLG Wien 24.10.2008, 29 Kt 132, 133/07; OLG Wien 26.3.2010, 29 Kt 5/09; OGH 8.10.2015, 16 Ok 2/15b.

[159]OGH 8.10.2015, 16 Ok 2/15b, at recital 5.11.1; see for the cases before the ECJ e.g., ECJ, case 6/72, *Europemballage & Continental Can*, ECLI:EU:C:1973:22, pt 15.

– In Belgium, the BCA's predecessor, the Competition Council, did not follow a consistent practice. In the *Steel-Plate Radiators*, *Flour* and *PCHC* cartel cases, the parent companies of some of the companies involved were held liable, while other parent companies were not.[160] In the *Flour* case, the fact that a parent company was not directly but still closely involved in the infringement may have tipped the scales in favour of holding the parent company liable.[161] The fact that parent companies have submitted the Belgian leniency application in the *Flour* and *Industrial Batteries* cases is also likely to have increased the chances that the parent companies were held liable.[162] The current BCA seems to rely more on the *Akzo* doctrine. In the two most recent infringement cases, *Algist Bruggeman* and *Public Procurement*, the BCA imposed fines on parent companies of all the undertakings involved, even if there was no evidence demonstrating that the mother companies were directly involved or were aware of the infringement.[163] In line with European law, it can be expected that parent companies can rebut this presumption if they demonstrate that they are not exercising decisive influence over the conduct of their wholly owned subsidiaries.
– In Italy, neither the law nor the AGCM guidelines provide specific rules with reference to the liability of parent companies for the antitrust infringements of their subsidiaries. The practice of the competition authority is to follow the ECJ's/Commission's wide interpretation, whereas administrative courts are more conservative, i.e. the presumption of parental influence is not accepted. For example, in the *Vending market cartel* case[164] the Authority stated that in the case of an absolute or almost absolute ownership and in the absence of proof to the contrary, it is presumed that a decisive influence of the parent company on the commercial behaviour of its subsidiary exists. On appeal, the administrative judge partially overturned the decision applying the European notion of 'single economic unit', at least in the event that the parent company does not exercise a total control over its subsidiary. At the same time, however, the administrative judge confirmed the application of the notion of 'single economic unit' with reference to the cases of total or quasi-total control, as well as to the cases in which a decisive influence is exercised in practice.

[160] F. Wijckmans and E. Wijckmans, Tijdschrift voor Belgische Mededinging/ Revue de la Concurrence Belge 2016, p. 240.

[161] Decision of the Belgian Competition Council. 28 February 2013 MEDE-I/O-08/, Mededingingsbeperkende praktijken op de markt voor levering en verkoop van meel in Belgie para. 174.

[162] The parent companies that were subject to a fine were: Meneba, Dossche, Ceres, and Brabomills.

[163] Decision of the Belgian Competition Authority. 22 March 2017 MEDE-I/O-13/0001, Algist Bruggeman a fine was imposed on parent company called Lesaffre et Compagnie S.A; Decision of the Belgian Competition Authority. 2 May 2017, MEDE– I/O-13/0031 AUD *Kartel in het kader van een openbare aanbesteding*. In this case, fines were imposed on parent companies called ABB Ltd, Siemens AG, NV Karpimos SA and Schneider Electric SE.

[164] IAA, decision No 26064 of June 8th, 2016, I783 - *Accordo tra operatori del settore vending.*

– In Switzerland, COMCO's practice depends on the circumstances of the specific case and gives room to legal uncertainty. According to the Federal Supreme Court, a parent company may, under certain circumstances, be held liable and may be fined for the competition law infringements of its subsidiaries.[165] It may also be permissible in individual cases to sanction only the acting subsidiary if there are objective reasons for doing so.[166] Furthermore, it is also possible for COMCO to hold both the parent company and the subsidiary liable for breaches of competition law and to sanction both with joint liability.[167] In order to impute liability of competition law breaches to a parent company, two conditions must be met. First, the parent company must be able to influence its subsidiaries, and second, the parent company must actually exercise its influence.[168] The possibility to influence a subsidiary is given if the subsidiary is completely (100%) controlled by the parent company. However, the possibility that in the case of a 100% interest of the parent company such an influence was actually exercised is only presumed and may be refuted.[169] According to COMCO, also shareholdings between 50% and 100% can provide the parent company with the possibility to influence its subsidiary, for example if the same individual is placed into management positions within the parent and the subsidiary.[170] Shareholdings below 50% may, according to COMCO, give the parent company the possibility of influencing its subsidiary. However, such an influence is not presumed and would need to be factually proven.[171] In the case where a parent company holds an interest in a subsidiary for the purpose of a financial investment only, which is limited to the exercise of shareholder rights, which may be sold at any time and with which no influence is exerted in the course of business of the subsidiary, it will not be assumed that a parent company exercised any influence on its subsidiary.[172]

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[165]Decision of the Swiss Federal Supreme Court of 29 June 2012 (BGE 139 I 72, respectively BGer 2C_484/2010, where the relevant paragraphs on this subject are published in para. 3.

[166]LPC 2015/2,p. 246 et seq. – *Türprodukte*, para. 270.

[167]LPC 2010/1 p. 120 et seq. – *Preispolitik Swisscom ADSL,* para. 27.

[168]Decision of the Swiss Federal Administrative Court of 27 April 2010 (B-2977/2007), para.4.1; LPC 2013/4, 524 et seq. – *Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Zürich*, para. 85; LPC 2015/2, p. 246 et seq. – *Türprodukte*, para. 267 and 270.

[169]LPC 2013/4 p. 524 et seq. – *Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Zürich*, para. 87.

[170]LPC 2012/2 p. 270 et seq. – *Verfügung vom 16. Dezember 2011 in Sachen Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Aargau*, para. 895 et seq; LPC 2015/2 p. 246 et seq. – *Türprodukte*, para. 269.

[171]LPC 2013/4 p. 524 et seq. – *Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Zürich*, para. 87; LPC 2015/2 p. 246 et seq. – *Türprodukte*, para. 268.

[172]W 2015/2 p. 246 et seq. – *Türprodukte*, para. 269; LPC 2012/2 p. 270 et seq. – *Verfügung vom 16. Dezember 2011 in Sachen Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Aargau*, para. 896.

Finally, some of the jurisdictions do not interpret the term 'undertakings' the same way as do the EU courts and the Commission. In these countries, not the economic unit but one or more legal entities will be the subjects of the procedure and addressees of the decision:

– Under Hungarian competition law, the liability for the wrongdoing of a subsidiary cannot be imputed to the parent company; however, in certain cases, the parent company may bear (vicarious) joint and several liability for the fine imposed on the subsidiary. The liability of a parent company can only be imputed for its own wrongdoing. The definition of 'undertaking' differs from the definition of 'undertaking' under EU competition law. In accordance with the wording of the Competition Act, undertaking does not mean the entire economic unit (e.g. company group), only a single entity subject to competition law rules (e.g. the company carrying out the infringement). The Competition Act contains a separate definition for the entirety of the economic unit: the so-called group of undertakings. Pursuant to the Antitrust Fine Notice, if several undertakings belonging to the same group of undertakings are held liable, the sum of the fines may not exceed 10% of the turnover of the group of undertakings. For example, in the Hungarian version of the global *CRT cartel*,[173] the investigation was initiated against several undertakings, including some foreign-based parent companies; however, in the end, the procedure was terminated against these parent companies in the absence of evidence on their participation (active role or knowledge) in the infringement.
– In Sweden, the calculation of the fine is based solely on the turnover of the company found to have infringed the competition rules and thus not on the turnover of the company group. There is no presumption that the parent is liable for the infringement of its subsidiary. Still, Swedish judges can interpret the law flexibly. In the case of *Telia AB v. The Competition Authority*, the SCA requested the courts to hold Telia AB liable for the actions of its subsidiary, Telia Handel AB, a company with a very low turnover. The court found it clear that the parent, Telia, had exercised decisive control over Telia Handel and had issued instructions that Telia Handel was expected to follow.[174] Whether Telia Handel had followed the instructions given by its parent or whether Telia was actually aware of the illegal actions of its subsidiary was considered irrelevant. Telia was thus found liable for the actions of its subsidiary, and the fine could be calculated on the turnover of the parent.[175] Interestingly, the defendant relied on the *compliance defence*. However, this attempt was unsuccessful, and the existence

[173]Case No. Vj-45/2008.

[174]Interesting to note is that the 'instructions' referred to was actually a compliance programme implemented by Telia AB. Thus, it was partly the implementation of a compliance programme – meant to ensure compliance with the competition rules – that made it possible for the court to reach the conclusion that the turnover of Telia AB should be included in the calculation of the fine.

[175]MD 2001:30, Telia AB./. KKV (2001-12-19).

of a compliance programme was instead taken to show that Telia had actively exercised a decisive influence over the operations of its subsidiary.

The concept of the economic unit may also influence how *repeat infringements* are sanctioned.

– In France, recidivism is established at corporate group level. In the *Orange Caraïbes* decision,[176] the Court of Cassation clarified that reiteration must be taken into account when 'one of the legal entities composing the company in question [. . .] has already been sanctioned'. The national report notes that most of the recidivism-related fining decisions were adopted in abuse of dominance cases.
– Also in Hungary, recidivism can be established when the previous infringer of competition rules are in the same group of undertakings as the current undertaking under investigation.[177] Foreign undertakings' previous infringements of Article 101/102 TFEU, which belong to the same group as the infringing undertaking under scrutiny, may only be assessed as recidivism if such previously infringing foreign companies directly or indirectly control the latter undertaking. It also counts as recidivism when the previous infringement was committed by the legal predecessor of the current infringing company.

Finally, some countries like France would adjust *the amount of the fine* upwards in case of big corporate groups to take into account the company's size, economic power and significant global resources, especially if the other cartel members are active on a narrower geographic market.

Parental liability will allow competition authorities to *calculate a much higher maximum* and can make *enforcement* action in case of non-payment more effective[178]:

• Austrian law[179] provides that the aggregate turnover of a company shall be calculated by adding together the consolidated turnovers of the following entities:
  – the company concerned;
  – those companies in which the company concerned directly holds at least 25% of the capital;
  – those companies that directly hold at least 25% of the concerned company;

[176] Court of Cassation, Commercial Chamber, 6 January 2015, n° 13-21.305 and 13-22.477, Orange Caraïbes.

[177] Para 46 of the Antitrust Fine Notice.

[178] I should add though that since most countries start the calculation of the fines based upon the relevan turnover achieved in the market subject to the cartel, the higher corporate group level maximum will be relevant only if the infringement lasted for many years. In this case the calculated amount could easily reach the 10% of the last financial year of the legal entity directly involved in the wrongdoing.

[179] Sec 22 in connection with Sec 7 of the Austrian Cartel Act.

  - those companies in which a subsidiary of the concerned company holds at least 25% of the capital if the concerned company controls the subsidiary[180];
  - those companies in which at least half of the members of the executive board or the supervisory board are the same as in the concerned company;
  - those companies that the concerned company can control on other grounds;
  - those companies that can control the concerned companies on other grounds.
- In Belgium, the legal maximum of the fine is set at 10% of the sales on the Belgian market and export sales from Belgium from the parent company and the undertaking involved. These companies will be held jointly and severally liable for the entire amount of the fine.
- Although Brazilian law allows that the total turnover of the group of companies be taken into account, this is available only when the company subject to the investigation does not have a figure for the revenue from the business segment in which the infringement occurred or when incomplete figures are submitted and/or are not duly evidenced. Furthermore, Brazilian law takes into account the turnover in the relevant product market, which means that multi-product entities will have relatively lower maximum fine exposure than single-product companies.
- In France, the ceiling of the fine is the consolidated turnover of the group of companies at a worldwide level.
- Hungarian law also allows the competition authority to calculate with the turnover of parent companies if they were named in the infringement decision, even if antitrust liability was not established for the parent company.

The concept of economic unit may have a role to play during the *enforcement phase* as well. According to Hungarian rules, for example, when the undertaking carrying out the infringement failed to pay the fine voluntarily and the enforcement of the fine was unsuccessful, joint and several liability of any member of the group of undertakings indicated in the prohibition decision can be established by the HCA in a separate order. According to the explanatory note of the amending act introducing this possibility in 2005, the purpose of this provision was to exclude undertakings avoiding the payment of the fine by manipulating the turnover data or the enforceable assets. The legislator considered that close economic relations manifested in a legal form (e.g. parent company) warrant a presumption of liability, which can justify the burden of detrimental consequences (i.e. the fine). The administrative court added two additional requirements in the *Railroad construction cartel*[181]: for the purposes of joint and several liability, the prohibition decision can point only to undertakings that have been involved in the competition supervision procedure as a party to the proceedings and have also been held liable/expressly named as parties for the infringement.

For the sake of completeness, we should mention that the issue of parental liability can also arise in the *civil law* context. Competition law infringement, like

[180] OGH 17.12.2008, 16 Ok 12/08, at recital 4.4.

[181] Case No. Vj-174/2007.

any violation of a legal provision, is a tort giving rise to liability, provided that the relevant provision obliges or prohibits a specific behaviour and the breach of such provision is imputable to the defendant. The Damages Directive 2014/104 does not contain specific provisions on parental liability. In most countries, national law implementing the directive does not contain any specific provision on parental liability either but merely refers to the general principles of tort law.

The identity of defendants in a follow-on damage action will be influenced by the decision of the EU Commission or the national authority to a great extent. The Commission's finding that an infringement was committed is binding on the courts. The same approach was adopted by most EU Member States. Some jurisdiction went even further, putting the decision of another Member State's competition authority at the same level. Hence, where a competition authority established that a parent company infringed competition law together with its subsidiary, that would pave the way for the parent's civil liability.

On the other hand, if the competition law infringement of a subsidiary is not attributable to its parent company under the specific rules of competition law, the general principles of tort laws do not provide for the liability, or at least under very strict conditions:

- In Belgium, in the one and only case addressing parental liability in a damages claim for breach of competition law, the Commerce Court of Brussels found that the parent company could not be held liable for any infringement committed by its subsidiary because the claimant had not proved that the parent company had influenced the conduct of its subsidiary.[182]
- In Germany, both the Regional Court (*Landgericht*) of Berlin[183] and the Regional Court of Düsseldorf[184] rejected the idea of holding parent companies liable for damages only because of their influence over a subsidiary whose representatives committed or did not prevent a competition law infringement. Indeed, German tort law does not allow for assigning liability to 'economic entities' as it is done under EU competition law with regard to administrative fines. Consequently, they argue that legal persons or associations of persons may only be liable under German tort law if *their* representatives were involved in the wrongdoing or violated their supervisory duties, Sections 31, 830, 831 BGB. The new Section 81(3a) GWB has not changed the law on damages since it is expressly limited to regulatory offences. Scholars argue, however, that Directive 2014/104, by using the term 'undertaking' and thus incorporating the EU courts' economic entity doctrine, requires Member States to allow for parent company

[182]Comm. Brussels, 15 November 2006, RG 8069/02-9060/02, unpublished, quoted in X. Taton e. a., 'Chronique de jurisprudence…', *op. cit.*, *R.D.C.*, 2013/1, p. 29, no. 60.

[183]Regional Court of Berlin, Judgment of 6 August 2013 – 16 O 193/11 Kart (DE), paras. 79–82.

[184]Regional Court of Düsseldorf, Judgment of 8 September 2016 – 37 O 27/11 Kart (DE), paras. 182–190.

liability.[185] This would mean that, due to the primacy principle, Section 33a GWB had to be interpreted accordingly.

– In Austria, parental civil liability was established by case law. In a case dating from 2012, the Austrian Supreme Court dealt with the question whether a parent company could be sued when a subsidiary infringed competition law.[186] The Austrian Supreme Court ruled in this case that parent companies (the banks) could be held liable when the subsidiary (the joint venture) infringed competition law. This was due to the fact that the parent companies were actively involved in the agreement. However, the Supreme Court further explained that—for the sake of liability—it is not necessary to prove that the persons acting in the subsidiary on behalf of the parent company were actually representing the parent company.[187] Rather, it is sufficient if the parent company is aware of the relevant circumstances of the conduct leading to a breach of competition law.[188] According to the Austrian report, this reasoning suggests that civil liability significantly deviates from the concept of single economic entity originating in European competition law. It is not sufficient to show that the parent company has a decisive influence over the subsidiary. However, after the implementation of the Damages Directive, this approach might change in the future.

#### 1.2.4.4 Beyond the Corporate Veil: Associations of Undertakings

Another way for holding a legal entity responsible for the unlawful actions of another legal entity relates to anti-competitive activities of various forms of (both public and private) associations of undertakings, i.e. industrial associations, chambers of various professions, etc. In real life, actions by these associations involve conduct that can also be attributed to their member undertakings. Competition authorities have different possibilities and priorities as to whether to target only associations or also their members. Identifying the target of the investigation is influenced by available sanctions and rules on enforcing fines to a great extent.

In most jurisdictions, following Article 101 TFEU, associations of undertakings are distinct subjects of cartel prohibition. It is usually at the discretion of the competition authority which legal entity to involve in the investigation:

[185]E. Rehbinder (note 129), para. 42; Monopolies Commission, 20th Main Report: A competitive order for the financial markets (9 July 2014, DE), para. 951; A. Petrasincu, Kartellschadensersatz nach dem Referentenentwurf der 9. GWB Novelle, WuW 2016, pp. 330-31; T. Makatsch and A.S. Mir, Die neue EU-Richtlinie zu Kartellschadensersatzklagen – Angst vor der eigenen 'Courage'?, EuZW 2015, pp. 7, 8; C. Kersting, Die neue Richtlinie zur privaten Rechtsdurchsetzung im Kartellrecht, WuW 2014, pp. 564, 565-66.

[186]OGH 2.8.2012, 4 Ob 46/12m., a MIF-kind of story involving Austrian banks issuing debit cards. A third party acquirer sued the banks for restitution, claiming that transaction fees were excessive due to the anti-competitive agreement between the banks.

[187]OGH 2.8.2012, 4 Ob 46/12m, at recital 7.6.

[188]OGH 2.8.2012, 4 Ob 46/12m, at recital 7.3.

- The French competition authority's practice is to target both the association and its members. A professional association or trade union that plays an active role in the organisation of the anti-competitive practices, when it exchanges information and adapts the procedures to make them less detectable, will be held liable alongside the companies involved in the infringement.[189] In some rather rare and relatively old cases, the competition authority decided that only the association should be condemned.[190]
- In Germany, associations of undertakings may be fined under Section 81(1)–(3) GWB in conjunction with Sections 9, 30 or Sections 9, 130 OWiG, if they possess legal capacity and if one of their representatives commits a competition law offence or violates a corresponding supervisory duty. Competition authorities typically fine associations in addition to undertakings if the formers' staff facilitated the competition law offence or somehow aided in its implementation.[191] It is important to underline that associations are not strictly liable for competition law offences committed by their members. Instead, and in contrast to the above-mentioned parental liability rules, their responsibility must be established in accordance with the general principles of the OWiG; i.e., associations are only liable for the acts of their own management and representatives.
- In Italy, the AGCM may fine either only the association or its members, or both. The allocation of liability relating to the infringement depends on the degree of involvement in the unlawful conduct.
- In Sweden, both the association and its members may be found having infringed national or EU competition rules. However, a member may be held liable if the association has the mandate to adopt decisions that are binding upon its members or if the company in question is adhering to the guidelines or recommendations issued by the association or is participating in meetings where 'sensitive information' is being exchanged or 'illegal decisions' are being made. The competition authority's decision can be motivated by reasons of procedural efficiency.

There are a few jurisdictions where associations of undertakings are not the subject of competition law, so the allocation of liability between the association and its members will not be an issue:

- In Hong Kong, since Section 6 of the Competition Ordinance only applies to undertakings, an association of undertakings may itself will be subject to competition law to the extent that it is engaged in economic activity.
- The Swiss Competition Act applies only to undertakings. Associations of undertakings can be sanctioned only if they themselves carry out economic activity, i.e. not just representing the interests of their members.

[189]French Competition Authority, decision No. 17-D-20 of 18 October 2017 relating to practices implemented in the resilient flooring sector.

[190]See for example French Competition Authority, decision No. 96-D-60 of 15 October 1996.

[191]For an example see Bundeskartellamt, Decision of 20 January 2003 – B10-206/01.

– In Austria, members of associations of undertakings may not be held liable for competition law infringements committed by the association.[192]

Furthermore, calculating the *maximum fine* in case of an association and enforcing the decision of the competition authority against members of that association are matters closely related to the subject of our report:

– In Belgium, neither Book IV CEL nor the fining guidelines contain clear rules on how the 10% turnover cap shall be applied to an association of undertakings. Article IV.74 refers to the turnover as reported according to the Companies' Code, which suggests that the 10% cap would be calculated according to the turnover reported by the association of undertakings. It should be noted that under the previous fining guidelines, the Belgian Competition Council could impose a fine on the basis of the sum of the value of the sales of its members. However, the Belgian Competition Council diverged from the methodology in the *Cement* case.[193] The Council held that since an infringement was established not only against by FEBELCEM but also against its sole three members, it would be disproportionate to impose a fine in relation to the sum of the value of the sales of the three sole members. In such circumstances, the Council imposed a lump sum fine of EUR 100,000 on FEBELCEM. A lump sum fine of EUR 100,000 was also imposed on another trade organisation without reportable turnover.
– In Germany, competition authorities calculate an association fine based on the association's turnover rather than the turnover of its members.[194]
– In France, fines incurred by professional associations were originally symbolic, constituted by the contributions that they receive. Now, according to the Penalty Notice, the basis of the calculation of the financial penalty is the sum of the total turnover realised by each active member of the association in the market affected by the infringement.
– According to the Hungarian Competition Act, the fine imposed on associations of undertakings shall not exceed 10% of the net turnover in the preceding business year of all undertakings that are members of such associations.
– In Italy, the AGCM seems to take into consideration the contribution paid by their members to the association. Yet the Regional Administrative Court of Latium stated in a judgment of 2014 that the maximum has to be determined considering the overall economic capacity of the undertaking, i.e. its total turnover rather than the total value of the contributions paid by the members, in order for the fine to be effective and proportionate and deter wrongdoing.

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[192] A. Traugott, in: Petsche/Urlesberger/Vartian, KartG$^2$ (2016) section 31 at recital 5.

[193] Decision of the Belgian Competition Council, 31 August 2013, COIN-I/O-05/0075, *Cimenteries CBR S.A., Holcim (Belgique) S.A, Compagnie des ciments belges S.A, FEBELCEM A.S.B.L et CRIC*.

[194] D. Wagener and I. Oest, section 18 Ordnungswidrigkeitenverfahren. In: Kamann, Ohlhoff and Völcker (eds), Kartellverfahren und Kartellprozess, C.H. Beck 2017, p. 538, para. 123.

– According to Spanish law, the total turnover of associations will be determined taking into account the turnover of its members. If it is not possible to calculate this total turnover, the infringement will be sanctioned in the following way: (a) minor infractions with a fine of EUR 100,000 to 500,000; (b) serious infractions with a fine of 500,001 to 10 million euros; (c) very serious infractions with a fine of more than EUR10 million.
– In the UK, the CMA has taken a very different approach in two recent cases. In the *Eye Surgeons* case,[195] the CMA took the relevant turnover of the trade association's members in order to calculate the starting amount.[196] This resulted in a fine for the trade association of £382,500. In the *Modelling Sector* case, the CMA did not take into account members' turnover in calculating the starting point for the trade association. According to the national report, the reason for the different approach may have been partly related to the number of members in the trade association. In the *Eye Surgeons* case, the trade association in question had hundreds of members, meaning that issuing small fines against each member would have been extremely complex. Also relevant may have been the ease with which each trade association (and by extension its members) could escape any fine imposed by going in to liquidation.

As to the *enforcement of fines not paid duly by the association*, jurisdictions have different approaches. Under EU law, Article 23 (4) of Regulation 1/2003 requires the association of undertakings that cannot itself pay for its fine to request a contribution from its members, failing which the Commission can demand payment of that fine directly from the undertakings involved in the decision-making process that led to the infringement. In other jurisdictions, the following rules are followed:

– In Belgium, following the adoption of the Protection of Competition Act, the Competition Council was able to impose fines *on each of the undertakings and associations of undertakings involved*. Article 40 of its 2011 fining guidelines provided that 'when a fine is imposed on an association of undertakings and the association demonstrates its insolvency, it can be held to ask its members for contributions to allow it to pay the fine'. However, this still does not allow the Belgian regulator in charge of competition to directly demand payment from the members of the association, as in European cases.
– In France, if the association is not solvent, it must launch a call for contributions to cover the amount of the fine.[197]
– There is no statutory obligation in Germany for member undertakings to contribute to the payment of the fine, and competition authorities are neither competent

[195] Case CE/9784-13, 20 August 2015 (Eye Surgeons).
[196] Decision in case CE/9784-13, from paragraph 5.32.
[197] Penalties-Notice point 65.

to impose any form of secondary liability.[198] If they want to impose liability on member undertakings, the competition authorities must show that representatives of these undertakings were involved in the offence.

– In Hungary, when the association fails to voluntarily pay the fine and the enforcement procedure does not result in the collection of the total amount of the fine, the HCA may, by a separate order, require the members of the association having participated in passing the decision infringing competition law and having been identified as such in the HCA's decision on the merits to jointly and severally pay the fine.[199] The Constitutional Court ruled that liability of the trade association's member undertaking may be established only if (i) the member undertaking participated in passing the decision infringing competition law and (ii) the member was identified in the operative part of the HCA's decision on the merits.[200] The fact that the liability of the members is established does not automatically exclude the potential finding of the liability of the trade association.[201] The liability of the trade association's member is linked to the participation in the infringement and not to the mere fact of membership. Therefore, if it is established that the member undertakings exclusively used the trade association to concert their market behaviour, only the liability of the members may be identified and not that of the trade association. Furthermore, pursuant to the decision-making practice of the HCA, the undertaking's membership must exist when the trade association's decision infringing competition law was passed and not during the HCA's competition supervision proceedings.[202] In other words, even if an undertaking is no longer member of the association during the HCA's investigation, this undertaking may still be held liable under the framework of secondary liability. According to the Civil Code, if it is likely that the association's assets would not cover its debts (e.g. a fine imposed by the HCA), the association's managing body must convene the general meeting.[203] At the general meeting, members must take the necessary steps to cover the debts.[204] The association may thus request its members to provide supplementary contributions.[205] In the alternative, if the members are unable to decide as to how to cover the debts, the Civil Code also precribes that the general meeting must decide on the dissolution of the association as such. Importantly, pursuant to

[198]Cf., however, Article 13(2) of the Proposal for a EU Directive to empower the competition authorities of the Member States to be more effective enforcers and to ensure the proper functioning of the internal market, COM(2017) 142 final.

[199]Article 76(6) of the Competition Act. Consequently, the association's members as identified by the HCA are entitled to challenge the HCA's decision on the merits, i.e. to dispute as to whether or not they participated in the passing of the decision infringing competition law.

[200]See Decision No. 359/B/2008 Hungarian Constitutional Court.

[201]Idem.

[202]See Decision No. Vj-8/2012/1751.

[203]Section 3:81(1) of the Civil Code.

[204]Section 3:81(2) of the Civil Code.

[205]This is what happened in connection with the so-called BankAdat banking cartel case (see Decision No. Vj-8/2012/1751).

the Civil Code,[206] in case of dissolution of an association, its members cannot be held liable for the association's debts (in the given case, the fine imposed by the HCA). However, certain members—namely those duly identified in the HCA's decision on the merits—can certainly be required to pay the fine imposed by the HCA in accordance with the Competition Act.

– In Spain, when a fine is imposed on an association and this is not solvent, the association is obliged to collect the contributions of its members to cover the amount of the fine. If this does not happen within the period set by the National Competition Commission, the fine may be required from any of the companies whose representatives are members of the governing bodies of the association. Once the National Competition Commission has requested payment in accordance with the provisions of the preceding paragraph, it may demand the payment of the fine to any member of the association operating in the market in which the infringement occurred when it is necessary to guarantee the full payment of the fine. Interestingly, the subsidiary payment will not be required of companies that demonstrate that they have not applied the decision or recommendation of the association constituting the infringement and that they either ignored its existence or actively distanced themselves from it before the investigation of the case began.
– In the UK, unless they are a joint addressee of the fining decision with respect to the fine on the trade association, it is difficult to see how associations might legally claim a contribution from members using a mechanism outside their normal funding arrangements. *Ex turpi causa non oritur action* would prevent a civil claim from being launched by the trade association as it would be based on that trade association's own unlawful activity.[207]
– According to Swiss law, if the association is constituted as an association within the meaning of the Swiss Civil Code and if the by-laws of the association do not provide otherwise, only the assets of the association may be held liable for the payment of the fine.[208]

Having seen the variety of legal solutions available in EU Member States, one should recall that the ECN + Directive is going to reshape European landscape in this regard. Article 13 of the directive proposal stipulates that Member States shall ensure that when a fine is imposed on an association of undertakings taking account of the turnover of its members and the association is not solvent, the association is obliged to call for contributions from its members to cover the amount of the fine. When a fine was imposed on an association, the competent authorities should also be able to require the payment of any outstanding amount of the fine by any of the undertakings whose representatives were members of the decision-making bodies of the association.

[206] Section 3:65(4) of the Civil Code.

[207] See Section **Fehler! Verweisquelle konnte nicht gefunden werden**.

[208] Art. 75a of the Swiss Civil Code (SCC). An unofficial translation of the SCC is available under the following link: https://www.admin.ch/opc/en/classified-compilation/19070042/index.html. Accessed 27 August 2018.

### 1.2.5 Calculating the Sanction

Of the various types of sanctions available against anti-competitive actions, detailed rules and guidelines on how to calculate them to reach the goals of deterrence and retribution exist only in the case of administrative fines imposed on companies (noteworthy is that in Spain, the Supreme Court recently annulled the competition authority's fining guidelines). There are no such rules for calculating the length of imprisonment or director disqualification. Neither are there sophisticated rules for individual monetary sanctions. Fining guidelines issued by most competition authorities address only corporation-specific unlawful conduct. These guidelines do not apply to individual sanctions.

As we have seen, administrative sanctions, i.e. fines, are imposed usually by competition authorities. In some jurisdictions, competition authorities act like public prosecutors investigating cases and then asking an independent court to adopt the fining decision. In Austria, for instance, the Cartel Court may impose fines for an infringement of a European or Austrian competition law.[209] The Cartel Court may not impose a higher fine than what the Federal Competition Authority or the Federal Cartel Prosecutor applied for. When it comes to a criminal procedure against a company, fines are imposed in daily rates; the number of rates depends on the severity of the crime. As for bid rigging, the daily rates range from 1 to 85 daily rates (when it comes to Section 168b of the Austrian Criminal Code) and 1 to 130 daily rates (for fraud causing a damage exceeding EUR 300,000). The amount to be paid per rate depends on the profitability of the company: it is fixed at the average company profit per day (therefore 1/360 of the company's annual profit). Yet the statutory law stipulates a minimum and a maximum threshold for the amount to be paid per rate: the daily amount may not fall below EUR 50 and may not exceed EUR 10,000.

Business conduct restricting competition can be sanctioned in a range, typically up to a maximum set by law, be it in the form of amount of money like with fines calculated by a competition authority or length of time for jail sentence or director disqualification imposed by a judge. Unlike in some other legal fields, like transport or traffic laws, there are no pre-fixed price tags determined by law for certain infringements of competition laws.

In the jurisdictions surveyed, there are no hard rules on how to determine the exact amount or length of the sanction. Sweden is an exception, where Sections 8 through 11 of the Competition Act regulate the setting of fines. In other countries, statutory provisions merely set the maximum, provide for some general principles (i.e. about fault or negligence) and give some general criteria (i.e. the length and seriousness of the infringements should be considered). An exception is the UK, where the Competition Act provides that the maximum penalty shall be set by the CMA in the form of guidance.[210] The rules in other jurisdictions are as follows:

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[209] According to Sec 29 of the Cartel Act (*Kartellgesetz*).

[210] Section 38(1) CA98.

– In Germany, Section 81(4) GWB and Section 17 OWiG regulate the calculation of fines. The application of the relevant legal provisions is further described in guidelines published by the *Bundeskartellamt*, in particular the 2013 Fining Guidelines.[211]
– Switzerland is an example where not only the basic but also more detailed rules are regulated by law. The Swiss Federal Act on Cartels and Other Restraints of Competition (CartA)[212] provides for *administrative sanctions* against undertakings for unlawful restraints of competition and various procedural fines. In addition, there is a Federal Ordinance on Sanctions Imposed for Unlawful Restraints of Competition (Cartel Act Sanctions Ordinance (CASO)),[213] which provides for the assessment criteria for the imposition of sanctions, as well as the conditions and the procedure for obtaining complete or partial immunity from sanctions. Furthermore, COMCO issued a commentary on the CASO, which sets out legally non-binding guidelines on how COMCO determines the amount of a sanction.

Soft law instruments, summarising and shaping the practice of competition authorities, contain the detailed rules on how to calculate the amount of antitrust fines. It is not our goal to present these fining guidelines in detail; we rather focus on the provisions relevant for the purpose of this study.

Competition authorities accordingly enjoy a wide discretion in setting their fines within the limits established by law. Put differently, legislators trust law enforcers to a greater extent than in other fields of law regulating the economy. Evidently, if the sanction is imposed by an administrative authority, it can always be reviewed by courts, yet this judicial review is, as a matter of law or fact, restricted in scope and depth. This wide discretion was one of the reasons that encouraged competition agencies to publish fining guidelines. The other reason for adopting fining guidelines is to contribute to general deterrence. Once published and also applied in real life, these set of soft rules could make companies think twice before engaging in unlawful activity.[214]

Of the various factors taken into account by the fining guidelines and relevant laws, we just look at the maximum fine since this closely relates to the concept of an undertaking.

[211]Bundeskartellamt, Guidelines for the setting of fines in cartel administrative proceedings (25 June 2013).

[212]An unofficial translation of the CartA is available under the following link: https://www.admin.ch/opc/en/classified-compilation/19950278/index.html. Accessed 27 August 2018.

[213]An unofficial translation of the CASO is available under the following link: https://www.admin.ch/opc/en/classified-compilation/20040326/index.html. Accessed 27 August 2018.

[214]It is true that an argument to the contrary could also be advanced. If, as a result of the calculation method used, the anticipated fine is less than the anticipated profit from the unlawful activity, the guidelines would not discourage the unlawful activity. Thus the lack of legal certainty as to the level of fines that can be imposed could make the rational cost/benefit calculation impossible, leaving companies calculating only with the statutory maximum which is in most cases much higher than the fine that is iposed actually.

Most of the national rules as regards corporate fines mirror EU rules, setting a *maximum* of 10% of the undertaking's turnover realised, usually, but not always, in the previous year. There is some diversity whether the turnover of a company or that of the economic unit is taken into account (depending upon how undertakings are defined by national competition laws) and whether turnover is calculated at national, European or worldwide level:

– In Austria, the maximum fine for an infringement may not exceed 10% of the undertaking's worldwide turnover in the last entire business year of the undertaking's involvement in the infringement.[215] Unlike cartel fines imposed by the European Commission,[216] the maximum amount of the penalty does not constitute a cap; rather, it is interpreted as a statutory range of punishment.[217] This means that a cartel fine amounting to 10% of the undertaking's turnover can only be imposed in the most severe violation imaginable[218] of competition law.
– In Belgium, domestic turnover is taken into account.
– In France, the legal ceiling for the sanction that may be imposed is 10% of the highest amount of the worldwide net turnover made before taxes in the year preceding the year in which practices have been implemented. If the author of the anti-competitive practice is not a company, this amount is limited to EUR 3 million.[219]
– In Germany there are two caps. For intentional offences, the competition authority may impose a fine of up to 10% of the total turnover of the relevant undertaking in the business year preceding the authority's decision. For negligent offences, the upper limit is set at 5% of the total turnover. Total turnover is to be calculated based on the turnover achieved worldwide by all natural and legal persons operating as a single economic entity.[220]
– According to Hong Kong law,[221] there are two alternative thresholds. The amount of a pecuniary penalty may not exceed in total either 10% of the turnover of the undertaking concerned for each year in which the contravention occurred or, if the contravention occurred for more than 3 years, 10% of the turnover of the undertaking concerned for the 3 years in which the contravention occurred that saw the highest, second highest and third highest turnover.

[215] OLG Wien 8.10.2015, 16 Ok 2/15, Spar; OGH 25.3.2009, 16 Ok 4/09*, Industriechemikalien*.

[216] See Regulation Art 23 of the Regulation 1/2003 (EC).

[217] OGH 8.10.2015, 16 Ok 2/15b, *Spar*.

[218] '*denkbar schwerste Zuwiderhandlung',* see H. Brettel and S. Thomas, Unternehmensbußgeld, Bestimmtheitsgrundsatz und Schuldprinzip im novellierten deutschen Kartellrecht, ZWeR 2009, 25 at 27 et seq.

[219] Article L. 464-2 I 4° of the Commercial Code.

[220] Section 81(4)(3) GWB was introduced through the Amendment on Price Abuses (*Preismissbrauchsnovelle*) of 21 December 2007 in order to provide legitimation for an already established – but contested – practice by the *Bundeskartellamt*.

[221] s.93(3) of the Competition Ordinance.

– According to Hungarian competition law, the maximum fine shall not exceed 10% of the net turnover achieved in the business year preceding that in which the decision was adopted. The relevant turnover is that of the undertaking or the group of undertakings that is specified in the decision and of whom the undertaking on which the fine is imposed is a member. The net turnover shall be determined relying on annual accounts or simplified annual accounts for the business year preceding that in which the decision was adopted. The law does not elaborate on the geographic dimension of the turnover. However, the Antitrust Fining Guidelines provide that also turnover achieved abroad can be included, adding that this is especially the case when the income resulting out of the infringement was also realised abroad.[222]
– The AGCM in Italy can impose an administrative fine of up to 10% of the turnover obtained by each undertaking or entity involved in the infringement during the prior fiscal year.
– In Sweden, the fine is calculated on the turnover of the company found to have infringed the Competition Act and not on the turnover of the company group. The national report suggests that Swedish legislation will have to be amended once the ECN+ Directive enters into force.[223]
– In Switzerland, fines against an undertaking for unlawful restraints of competition and for breaches of settlements and administrative decisions may result in a maximum fine of 10% of the turnover that the undertaking achieved in Switzerland in the preceding three financial years.[224]

There are a few jurisdictions not following the 10% rule:

– Brazilian competition law provides for calculating turnover at group (conglomerate) level; there are two special rules that make this regime different compared with the mainstream Europeans. First, a fine range is provided by law, from 0.1% to 20% of the turnover. Second, the turnover is not the total of the group of companies realised but only the turnover achieved in the markets subject to the infringement. There is a soft minimum as well: the fine should not be less than the benefits achieved, provided this can be estimated. Furthermore, there are special rules for entities where it is not possible to use the gross turnover criterion; the fine will be between R$ 50,000 and R$ 2,000,000,000.
– In Ukraine, the 10% turnover can be exceeded if the unlawful profit was larger than this amount. The fine is capped at three times of the unlawful profit.

[222] GVH Antitrust Fining Guidelines, 54.

[223] The proposal for a directive empowering national competition authorities requires Member States to ensure that (i) the maximum amount of the fine should not be set at a level below ten percent of the undertaking's annual worldwide turnover (Article 14) and (ii) the notion of undertaking is applied for imposing fines on parent companies and legal and economic successors of undertakings (Article 13).

[224] For further details regarding the calculation of a fine cf. 1.3. Determination/Calculation of Sanctions.

In countries where individual sanctions are available, laws set the range of fines differently. Instead of providing for a maximum relative to the turnover achieved, national rules fix the maximum and, in some instances, also the minimum in local currencies.

– In Belgium, The BCA can also impose an administrative fine on individuals infringing the prohibition of Article IV.1 Section 4 CEL, ranging from EUR 100 to EUR 10,000. The BCA indicated some general principles according to which it would determine the amount of the individual's fine: the gravity of the infringement, the involvement of the individual and the specific aspects of the case would be taken into consideration.
– In Germany, the upper limit of fines to be imposed on individuals for intentional offences is EUR 1 million, whereas negligent offences may be fined up to EUR 500,000. The competition authorities set the exact amount of the fine in accordance with Section 17(3) OWiG. According to this provision, the authorities shall take into account the offender's culpability, which is reflected by the significance of the offence and the extent of the offender's participation,[225] as well as the offender's financial circumstances.

Brazilian law is again an exception. The fines that can be imposed on directors who are directly or indirectly responsible for the offence committed, where their fault or intent is proven, range from 1% to 20% of the fine imposed on the company.

### 1.2.6 Investigations and Sanctions Under Different Laws Against the Same Action: The *Non Bis Idem* Principle

Whenever the same anti-competitive conduct can be sanctioned by two or more authorities, the issue of unjust double punishment arises. The principle of *non bis in idem* (or 'double jeopardy') provides that a person cannot be prosecuted a second time for the same facts as the ones for which this person has already been sanctioned or acquitted by a final decision. According to Article 4 of the 7th protocol of the ECHR and Article 50 Charter of Fundamental Rights (hereinafter 'the Charter'), *no one shall be liable to be tried or punished again in criminal proceedings for an offence for which he or she has already been finally acquitted or convicted*.

This principle does not prohibit the punishment of both the corporation and its employees for the same conduct. In most jurisdictions, *non bis in idem* is interpreted in a way that the same anti-competitive conduct can be sanctioned by a regulatory

[225] Bundeskartellamt, Activity Report 2015/16 – BT-Drs. 18/12760 (DE), p. 34.

authority in addition to the competition authority. The European Court of Justice has consistently held that competition rules may apply where sector-specific legislation exists.[226] According to the ECJ, regulatory infringement and competition infringement are capable of being two separate acts, despite being based on the same facts. EU Member State competition authorities may also proceed in parallel, investigating the same cross-border cartel, each of them focusing on the effects on their own territory.

*Ne bis in idem* can be a defence not only in competition law cases. *Tax law* provides for many useful examples. The Swedish report provides a story about the combined application of administrative and criminal sanctions. Up until a few years ago, the imposition of a tax surcharge by the tax authority did not affect the possibility to later institute proceedings for tax offences (or *vice versa*). However, the preliminary ruling given by the ECJ in the case of *Åkerberg Fransson* has effectively put a stop to this practice.[227] In *Åkerberg Fransson*, the court was asked to give its view on the possibility to sentence a Swedish fisherman to prison for tax evasion when the tax authorities had already ordered him to pay a tax surcharge.[228] In a preliminary ruling, the court declared that the *ne bis in idem* principle laid down in Article 50 of the Charter of Fundamental Rights of the European Union precludes Member States from imposing successively, for the same acts of non-compliance with declaration obligations in the field of value added tax, a tax penalty and a criminal penalty in so far as both penalties are to be considered criminal in nature, a matter that the ECJ left to the national court to determine.[229] Applying the *Engel* criteria established by the European Court of Human Rights,[230] the Swedish Supreme Court has later acknowledged that tax surcharges are to be considered criminal in nature.[231] Following legislative changes in 2015, the Swedish Act on Tax Offences no longer allows proceedings to be instituted where the tax authority has already imposed tax surcharges.

Here are view examples on how jurisdictions deal with the principle of *non bis in idem*:

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[226]ECJ, Joined Cases C-359/95 and C-379/95 P *Commission and France vs. Ladroke Racing*, ECLI:EU:C:1997:531, pt 34; ECJ, case T-228/97 *Irish Sugar vs. Commission* [1999], ECLI:EU:T:1999:246, pt 130; GC, case T-513/93, *Consiglio Nazionale degli Spedizionieri Doganali*, ECLI:EU:T:2000:91, pt 59.

[227]CJEU, case C-617/10, *Åklagaren v Hans Åkerberg Fransson,* EU:C:2013:105.

[228]Mr Åkerberg Fransson was self-employed and thus under obligation to pay both VAT and employers' contributions.

[229]CJEU, case C-617/10, *Åklagaren v Hans Åkerberg Fransson,* EU:C:2013:105.

[230]In the case of *Engel v. the Netherlands*, the European Court of Human Rights declared that an offence is to be considered criminal in nature where it is classified as such under national law or the sanction pursues a retributive goal and is deterrent and punitive rather than compensatory. See *Engel and Others v the Netherlands*, judgment of 8 June 1976, Applications nos. 5100/71; 5101/71; 5102/71; 5354/72; 5370/72.

[231]NJA 2013 s. 502 (PMP).

- Under Austrian law, a company faces two different sanctions for bid rigging: cartel fines imposed by the Cartel Court and criminal punishment inflicted by criminal courts. As the national report notes, the relationship between these penalties is still vividly disputed. Austrian courts acknowledged that cartel fines may be deemed a criminal sanction and therefore fall within the scope of application of the ECHR.[232] It is, therefore, questionable whether criminal fines for bid rigging and cartel fines for the same conduct may be deemed the same (idem), meaning in the affirmative that only one of these penalties could be imposed on the company. The Austrian Constitutional Court clarified that the prosecution of several offences arising out of a single criminal act is compatible with the principle of *ne bis in idem* if these offences do not have the same essential elements.[233] While the Austrian courts have yet to clarify the essential characteristics of these offences, there is widespread consensus in the Austrian legal scholarship that this is the case.[234] The authors of the national report see the solution to this problem less obviously. If damage to the contracting body can be proven, there is, arguably, room for a cartel fine since the offence of fraud and the prohibition of anti-competitive agreements only overlap slightly. This picture is more complex when it comes to the prohibition of bid rigging, which is set down in Section 168b of the Austrian Criminal Code. It could be argued that public procurement enjoys special legal protection that reaches further than protecting competition without involvement by public bodies. It can be considered a legitimate policy decision by the Austrian legislator to deem the fact that public bodies are harmed by anti-competitive agreements as being an aggravating factor. Since administrative cartel fines are not increased due to the public nature of the tender, there are good reasons to believe that the criminal sanctions associated with bid rigging are due to the fact that anti-competitive agreements vis-à-vis public bodies should be penalised more severely than anti-competitive agreements between private companies or persons. Therefore, imposing criminal sanctions alongside cartel fines would not constitute an infringement of the *ne bis in idem* principle if the criminal sanction considers the cartel fine and only mirrors the aggravating circumstances of harming public bodies.
- In Belgium, the legislator may provide for both criminal and administrative sanctions against the same unlawful behaviour. The Belgian Court of Cassation held that ‘the Belgian government can set different sanctions on the same infraction, one subject to the national criminal regime and the other to the system

[232]OGH 12.09.2007, 16 Ok 4/07; OGH 26.06.2006, 16 Ok 3/06; OGH 27.02.2006, 16 Ok 52/05.

[233]VfGH 2.7.2009, B559/08, at recital 6. In the Literature, this case was criticized for being in conflict with the European Court of Human Rights in ECHR 10.2.2009, 14939/03, *Zolothukin;* see B. Müller and E. Müller, Ne bis in idem: Geldbußen und Kriminalstrafen für Submissionskartelle, wbl 2014, 61 (62).

[234]B. Müller and E. Müller, Ne bis in idem: Geldbußen und Kriminalstrafen für Submissionskartelle, wbl 2014, 61 (63); *Glaser*, Unzulässige Bieterabsprachen in exekutiven Versteigerungsverfahren – ein neuer Kartellstraftatbestand im StGB, ecolex 2015, 959 (962).

of administrative sanctions, even if that administrative sanction is criminal in nature in the sense of Article 6 of the European Convention on Human Rights'.[235] However, administrative authorities and criminal courts are subject to the general principle of *non bis in idem*. In the specific context of competition fines, the Brussels Court of Appeal ruled that a fine imposed on the postal operator by the Belgian Competition Council,[236] after the Belgian Institute for Postal Services and Telecommunications imposed a fine for the same conduct, infringed the principle of *non bis in idem*.[237] The court held that both fines were of a 'criminal nature' in the context of applying the right to a fair trial. Given that both fines concerned the same perpetrator, the same conduct, the same undertakings concerned and the same relevant markets, the Court of Appeal annulled the fining decision of the Belgian Competition Council. This judgment is currently under appeal before the Belgian Supreme Court.

– In Germany, in a typical bid-rigging case, there will be at least two separate proceedings: a criminal investigation conducted by public prosecutors and a quasi-criminal regulatory offence proceeding conducted by a competition authority. Competition authorities and public prosecutors work closely together in investigating bid-rigging offences. Once a competition authority has indication that a crime may have been committed, it must transfer the case to the competent public prosecution office according to Section 41 OWiG. Public prosecutors will then investigate and possibly try the case, without any formal participation of the competition authority. On the other hand, since the criminal investigation only targets individuals, the competition authority remains exclusively competent to pursue the case against the undertakings under Section 82 GWB.
– In Spain, there are multiple institutions involved in enforcing and punishing anti-competitive conducts. Catalonia, Galicia, the Valencian Community, Aragon, Castile and Leon, the Basque Country, Extremadura and Andalusia are the autonomous communities that have a regional competition authority imposing sanctions. Some autonomous communities (Murcia, Canary Islands, Madrid and Navarra) only have a body in charge of the investigation, and the CNMC acts as the decision body. Act 1/2002, of February 21, on the Coordination of Competences of the State and the Autonomous Communities in Matters of Defense of Competition establishes a coordination mechanism, as well as rules for the settlement of conflicts. The cases are assigned to the competition authorities of the Autonomous Communities when the investigated practice produces effects only in their territory and to the CNMC when the investigated practice has a supra-autonomous scope or when it affects the national market as a whole.

[235] Belgian Supreme Court, 5 February 1999, Arr.Cass. 1999, p. 142 and p. 155.

[236] The Belgian Competition Council is the predecessor competition authority.

[237] Brussels Court of Appeal, 10 November 2016.

– In the UK, the CMA is not the only competition authority that is capable of enforcing the Chapter I/Article 101 and Chapter 2/Article 102 prohibitions. There are eight sectoral regulators that can enforce the same laws. Still only three CA98 infringement decisions have been made by the Sectoral Regulators: one each by the CAA, Ofgem and the ORR.[238] The principle of *ne bis in idem* is recognised in the Concurrency Regulations. The principle is also recognised in the primacy obligation: once their competition powers are used, the Sectoral Regulators are precluded from pursuing enforcement in a given case using their regulatory powers. The CMA may consider reducing a fine to take into account a fine imposed by a regulator for the same act (as the Commission did in its abuse of dominance decision fining Telekomunikacja Polska for an abuse of dominance).[239]

The UK is a notable example where the same authority is responsible for investigating the same facts based on criminal and civil/administrative laws. The CMA takes the approach of concluding its criminal cartel investigations prior to taking significant steps in its civil proceedings,[240] although the latter cases are often opened prior to the conclusion of the former. It makes sense to do the criminal case first as all the evidence gathered is likely to be usable in the civil case. The same is not true the other way around.

Related to the prohibition of double jeopardy, one could expect that authorities of the same jurisdiction investigating the same conduct under different substantial rules would co-operate as far as sanctioning is concerned. However, national rules do not seem to take into account other sanctions imposed by other bodies against the same person for the same conduct.

In countries where individual liability exists, the imposition of a sanction on an employee has no effect on the sanction that is imposed on the corporation employing that person. The same holds true vice versa.

[238] A complete list of competition cases brought by the Sectoral Regulators since the founding of the UKCN in 2014 is available on https://www.gov.uk/government/publications/competition-act-1998-cases-in-the-sectors-regulated-by-ukcn-members/competition-act-1998-cases-in-the-regulated-sectors. Accessed 6 June 2018. The only infringement decision by a Sectoral Regulator since 2014 (by the CAA for price fixing at Manchester Airport Car Parks) did not result in fines as one undertaking sought and received immunity and the other had no revenue in the relevant market. In 2010, Ofgem fined National Grid £ 41,600,000 for breaching the Chapter II/Article 102 prohibition, which was reduced to £ 15,000,000 on appeal. In 2006, the ORR fined EWS £ 4,100,000 for breaching the Chapter II/Article 102 prohibition.

[239] Decision in Case 39.525, para. 919.

[240] The CMA's civil investigation CE/9691/12 (Galvanized Steel Tanks Civil Investigation) was opened on 27 November 2012, but did not issue a statement of objections until May 2016, long after the sentencing at the conclusion of the original cartel offence investigation in case CE/9623/12 (Galvanized Steel Tanks Criminal Investigation) on 14 September 2015. The final decision in the Galvanized Steel Tanks Civil Investigation was issued on 19 December 2016. The CMA's civil investigation 50299 (Precast Concrete Drainage Civil Investigation) has not issued a statement of objections, the sentencing at the conclusion of the Precast Concrete Drainage Criminal Investigation having taken place on 15 September 2017.

### 1.2.7 Coordinating Procedures Involving Corporations and Individuals

Whenever individuals are targeted by a competition authority or public prosecutors, the corporation employing them is also investigated. Since the facts of both investigations are basically the same, merging these two procedures has its obvious merits.

In most jurisdictions, there is potential for parallel procedures targeting the same anti-competitive conduct. Yet there is no mechanism in place to coordinate the investigations and the imposition of sanctions by the administrative and criminal institutions. This would be important in light of the jurisprudence of the ECHR and the CJEU interpreting antitrust prohibitions as quasi-criminal rules, making the *ne bis in idem* principle applicable. The EU directive harmonising damage actions includes some rules on the links between administrative and civil law enforcement (i.e. making the decision of a competition authority establishing an antitrust infringement binding on civil judges).

Whenever a jurisdiction employs a dual system of prohibiting anti-competitive activities, the relations between the criminal and administrative prohibition, i.e. their personal reach, the respect to the *ne bis in idem* principle, the co-ordination of parallel procedures and the sharing of evidence, become crucial.

In theory, there could be another link between these two investigations: it could be argued that a sanction imposed on the individual could be taken into account when it comes to fining the company.

### 1.2.8 Sanctions and Compliance Programmes

Presenting the role of corporate compliance programmes (CCP) is beyond the scope of our research. Nevertheless, it is important to realise the link between individual responsibility and the lack or existence of an effective CCP. The only way how corporations can try to prevent the occurrence of antitrust violations by their employees is to operate CCPs. Yet there is no real consensus to what extent CCPs should be considered when a rogue employee acting on behalf of the company infringes competition rules despite the best intentions of the management.

There are countries where companies are encouraged to adopt CCP and are honoured by lower fines:

– In Austria, the implementation of a genuine CCP is qualified as a mitigating factor if it leads to the voluntary termination of the anti-competitive conduct.[241] A compliance system that could not prevent an infringement of competition law, however, does not reduce the cartel fine.[242]

[241] *Harsdorf/Hölzl*, Die Bedeutung kartellrechtlicher Compliance-Programme aus Behörden-und Unternehmenssicht, ÖZK 2016, 222.
[242] OGH 16.11.2010, 16 Ok 5/10.

- Hong Kong has a fairly new competition law, so its law enforcers have no established practice. However, the reporter suggests that since the law is largely modelled after Australian competition law, law enforcers might find Australian cases instructive in this regard. In Australia, the existence of a compliance culture, as evidenced by a compliance programme, is one of the factors for the court to consider when setting fines.[243]
- Pursuant to the new Antitrust Fine Notice of the Hungarian Competition Authority of 2018, the existence of a genuine compliance programme may serve as a mitigating circumstance. Preliminary (i.e. adopted before the initiation of the competition proceedings) and subsequent (i.e. taken after the initiation of the competition proceedings) compliance efforts and programmes are also taken into account when the HCA sets the fine. However, the HCA attributes greater importance to pre-compliance programmes that were already in force before the initiation of competition procedure. At the same time, it may be an additional mitigating circumstance if no high-ranking corporate executives participated in the infringement. In such cases, the HCA might reduce the fine by up to 7% depending on the preliminary compliance programme. Moreover, if the undertaking provides evidence of significant added value in the context of the compliance programme, the reduction of the fine may increase to 10%. In addition, the HCA may reward a commitment to develop and implement a subsequent compliance programme by the HCA with a reduction of fine of up to 5%, if such commitment is taken in conjunction with a leniency policy or a settlement procedure and/or in parallel with proactive reparation.
- In Italy, one of the mitigating circumstances is the adoption of an antitrust compliance programme. The company must demonstrate an effective and concrete commitment to compliance. The mere existence or adoption of a compliance programme is not sufficient to grant a reduction of the fine as the compliance programme must be 'adequate'. In order to assess whether an antitrust compliance programme can be considered effective, the IAA takes into account, among others, the following elements: full involvement of management in promoting compliance, identification of personnel responsible for the programme, risk assessment on the basis of the business sector and operating context, organisation of training activities appropriate to the economic size of the company, forecast of incentives for compliance with the programme and existence and implementation of appropriate monitoring and auditing systems.[244]
- In the UK, implementing a CCP and publicly committing to it following the infringement is a mitigating factor that can be rewarded with up to a 10%

[243] *Re Trade Practices Commission v CSR Limited* (1991) 13 ATPR 41-076, at section 42, and *Australian Competition and Consumer Commission v Visy Industries Holdings Pty Limited (No 3)* (2007) FCA 1617, at section 303.

[244] The AGCM, by its Resolution No 27117 of April 5th, 2018, has opened a public consultation on a draft version of '*Guidelines on antitrust compliance*'.

reduction from the fine.[245] The mere introduction of such a programme is not sufficient; rather, a clear and unambiguous commitment must be made to achieve competition law compliance from the top down. Risk identification, risk assessment, risk mitigation and review activities may all be necessary to secure the 10% discount. Only in exceptional circumstances (for example where compliance activities are used to conceal or facilitate an infringement or to mislead the CMA) do the Fining Guidelines state that compliance activities will be treated as an aggravating factor.

There are also jurisdictions where CCPs are not honoured with lower fines:

– There is no formal guidance in Belgium in this respect. The current BCA has not decided this point yet, unlike its predecessor, the Competition Council, which refused in the *Steel-Plate Radiators* case to consider as a mitigating factor the existence of a compliance programme. The Council was not convinced that the compliance programme had been effective in preventing anti-competitive agreements being made.[246]
– The German competition authority does not grant fine reductions for the mere existence of compliance programmes, even if they are genuine and generally successful.[247] Such programmes may exempt undertakings from supervisory liability under Section 130(1) OWiG (i.e. relieving them from responsibility for acts by ordinary employees), but they will not be of any help once a manager or any other representative commits a competition law offence, causing liability under Section 30 OWiG. The Bundeskartellamt explains its strict stance with the danger of creating false incentives,[248] as well as with difficulties in the assessment of the quality of corporate compliance programmes.[249] The German Federal Court of Justice, however, has recently stated in a criminal case concerning tax evasion that it *is* relevant for the calculation of a fine under Section 30 OWiG whether the undertaking in question has installed an effective compliance programme.[250] The BGH even instructed the trial court to take into account

[245]Fining Guidelines, footnote 33. A 5% discount for a compliance programme was awarded in the CMA's decision in Case CE/9857-14,10 May 2016 (Bathroom Fittings) and a 10% discount was awarded in the CMA's decision in Case CE/9784-13, 20 August 2015 (Eye Surgeons).

[246]Decision of the Belgian Competition Council. 20 May 2010 MEDE-I/O-04/0063 and MEDE-I/O-06/0032, Staalplaatradiatoren para. 220.

[247]Bundeskartellamt, Activity Report 2011/12, p. 32. Available at https://www.bundeskartellamt.de/DE/UeberUns/Publikationen/Taetigkeitsberichte/taetigkeitsberichte_node.html;jsessionid=3BD4FC0AF35E5D953462340525341511.2_cid387. Accessed 19 November 2018.

[248]Bundeskartellamt, Activity Report 2011/12, p. 32. Available at https://www.bundeskartellamt.de/DE/UeberUns/Publikationen/Taetigkeitsberichte/taetigkeitsberichte_node.html;jsessionid=3BD4FC0AF35E5D953462340525341511.2_cid387. Accessed 19 November 2018.

[249]Bundeskartellamt, Activity Report 2013/14 – BT-Drs. 18/5210 (DE), p. 13.

[250]BGH, Judgment of 9 May 2017 – 1 StR 265/16, WuW 2017, 456, 457 (DE), para. 118.

compliance efforts that were taken *after* the infringement occurred.[251] It is currently much debated whether the ruling has any relevance for future competition law cases.[252]
- In a Swedish case, one of the parties argued that the existence of a compliance programme initiated after the SCA had started its investigation should be considered as a mitigating circumstance when setting the fine. The Swedish Market Court did not accept this argument.[253] While commending the company on having adopted a compliance programme, it questioned the effectiveness of such measures and chose not to pay regard to the programme when determining the amount of the fine.[254]
- In Switzerland, there is no statutory provision according to which the existence of a compliance programme would mitigate the fine imposed upon companies for competition law infringements. Motions in the Swiss Federal Parliament to introduce such a provision into the CartA have failed[255] or were withdrawn.[256]

In a *criminal context*, in Austria, a company can avoid criminal liability if the representatives established an adequate compliance system that aims at preventing bid rigging. Also, in Spain, the Criminal Code introduced a provision according to which the existence of a compliance programme implemented may mitigate the company's legal responsibility.

### 1.2.9 Leniency in Countries with Both Individual and Corporate Liability

Many would argue against individual liability in addition to corporate liability, raising arguments about the effectiveness of corporate leniency policies. The issue is even more complex if different authorities would investigate the same cartel under different laws in case of individuals and companies.

[251] BGH (note 251), para. 118.

[252] J. Brauneck, Bußgeldmindernde Compliance durch den BGH bei Wettbewerbsverstößen gegen den Willen der EU?, WuW 2018, pp. 181–188; A. Eufinger, Verbandsgeldbuße nach section 30 OWiG und Compliance, ZIP 2018, pp. 615–624; A. Eufinger, Das Judikat des BGH zur Compliance und seine Bedeutung für die kartellrechtliche Verbandsgeldbuße, NZG 2018, pp. 327–330; A. Baur and P. M. Holle, Compliance-Defense bei der Bußgeldbemessung und ihre Einpassung in das gesellschaftsrechtliche Pflichtenprogramm, NZG 2018, pp. 14–19.

[253] At the time the court of last instance. Since then, the court system has undergone a transformation.

[254] MD 2009:11, *NCC AB m. fl. ./. KKV et vice versa* (2009-05-28).

[255] Parliamentary Motion of R. Schweizer, no. 07.3856 of 20 December 2007; Parliamentary Initiative of H. Kaufmann, no. 08.443 of 13 June 2008.

[256] Parliamentary Initiative of D. De Buman, no. 16.473 of 30 September 2016; The parliamentary initiative was withdrawn as of 27 October 2017.

In countries where both individuals and corporations can be held liable for competition law infringements, the issue arises on how to *co-ordinate* individual and corporate whistle-blowing. As a rule, successful leniency application by an undertaking does not automatically grant immunity to individuals involved, and the latter could theoretically still face fines. Also, without coordination, there is a risk that companies refrain from applying for leniency if their managers will face serious individual sanctions:

– In Belgium, an individual may apply for immunity of fines either with his/her company[257] or on an individual basis.[258] Undertakings are not precluded from obtaining immunity or a reduction of fines if an individual has already requested immunity. However, as noted by the BCA in the *Public Procurement* case,[259] if an employee of an undertaking provided on an individual basis information to the BCA, this may prevent this undertaking to provide 'new' evidence to the BCA and thus to successfully obtain leniency. The fact that an employee obtained immunity of fines for a particular behaviour, while the relevant undertaking could not, may influence the fine imposed on the undertaking in certain circumstances. In the *Public Procurement* case, the BCA granted a supplementary reduction of the fine to an undertaking that had not been able to apply for leniency due to the fact that one of its employees had already provided on an individual basis the relevant information to the BCA in order to obtain immunity.
– In Brazil, where individual criminal liability exists for participating in a cartel-like agreement, the signing of a leniency agreement between CADE and a corporation may reduce the criminal penalty of the natural persons involved, if approved by a competent judge.
– In Hong Kong, where the Commission enters into a leniency agreement with an undertaking, leniency will ordinarily extend to any current officer or employee of the undertaking provided the relevant individuals provide complete, truthful and continuous cooperation with the Commission.[260] Leniency will also extend under the same conditions to any agent, former officer or former employee of the undertaking specifically named in the leniency agreement. Where the undertaking is a partnership, leniency will ordinarily extend to any partner in the partnership and any employee of the partnership where the relevant individuals provide complete, truthful and continuous cooperation with the Commission throughout its investigation and any ensuing proceedings.

[257]This may be done in two ways: (i) his/her application for immunity is submitted together with the leniency application of the undertaking concerned, or (ii) an application for immunity individually, but simultaneously with, and with express reference to, the undertaking's leniency application.

[258]Just like companies, individuals must have been involved in a breach of article IV.1 section 4 CEL, and must contribute to proving the infringement, by either providing information which was not yet known by the BCA, or by admitting the existence of an anti-competitive practice listed under article IV.1 section 4 CEL (cartels, market allocation).

[259]Decision of the Belgian Competition Authority. 2 May 2017 MEDE-I/O-13/0031.

[260]Paragraph 2.2 of the Competition Commission's Leniency Policy Statement.

- In Hungary, corporate leniency applications serve as grounds for the exemption of individual punishment within the meaning of Article 420 of the Criminal Code. If an individual served as an executive officer, shareholder, supervisory board member or employee of a company at the time of committing the bid rigging, he/she shall not be punished for the criminal offence if he/she submits an immunity application to the HCA for exemption from the administrative fine and discloses the circumstances of the infringement, provided that the HCA has not initiated an investigation already. In the event the HCA's investigation is already in progress and an individual having served as an executive officer, shareholder, supervisory board member or employee of a company at the time of committing the bid rigging submits a leniency application to the HCA for exemption from or a reduction of the administrative fine, the criminal penalty may be reduced without limitation or can even be dismissed if the particular circumstances of the case allow for such relaxation.
- The Bundeskartellamt treats any application filed by an authorised representative on behalf of an undertaking as an application also on behalf of the undertaking's employees who participated in the competition law offence.[261] However, the competition authorities cannot provide individuals with immunity from criminal prosecution if said individuals have committed a crime, such as the criminal bid-rigging offence according to Section 298 StGB. This dualism poses a risk for individuals since the Bundeskartellamt's leniency programme is only applicable to regulatory offences. What is more, public prosecutors are required under Section 152(2) StPO to indict all prosecutable offences (*principle of mandatory prosecution*). Thus, neither public prosecutors nor competition authorities can protect individuals from criminal prosecution even if those individuals voluntarily reveal the criminal act and cooperate with the authorities. Their cooperation may positively affect sentencing, but this decision is reserved to the court and can only be made at the end of a trial.
- In Spain, if an undertaking lodging a leniency application extends the application to its legal representatives and to the members of its governing bodies that have taken part in the cartel practices, the CNMC will extend the leniency granted to the applicant undertaking, provided the said individuals also cooperate to establish the facts.
- In Sweden, to encourage leniency applications, Section 9 of the Act on Trading Prohibitions stipulates that a *trading prohibition* shall not be required from a general interest where the person in question has facilitated the cartel investigation carried out by the SCA, the European Commission or a competition authority of another EU Member State.[262]

[261] Leniency Notice (note **Fehler! Textmarke nicht definiert.**), para. 17.

[262] A trading prohibition will only be issued if it is required from a general interest perspective.

## 1.3 Are Existing Sanctions Efficient/Sufficient?

In this part of the international report, I would like to evaluate to what extent existing sanctions are efficient. It is difficult, if not impossible, to measure exactly the effectiveness of sanctions. Often there is a self-interest issue distorting the response: why would competition authorities acknowledge the lack of existing sanctions? Also, why would attorneys/corporations admit that corporate fines are not sufficient and there would be a need for more severe individual sanctions? By efficient sanctions we mean that either their actual imposition or the realistic likelihood of their imposition soon after the breach would deter the same company, and others, to wrongdoing. There are two dimensions to this issue: are existing sanctions sufficiently enforced, and are existing sanctions, even if fully enforced, sufficient to reach the ultimate goals of punishment and deterrence? The non-application of criminal sanctions may also make us find that even though they are assumed to be the most appropriate tool to target actual wrongdoers, they should be replaced or at least supplemented with other, non-criminal, individual sanctions.

There have been no studies in the jurisdictions surveyed as to the effectiveness of sanctions. Some authorities publish reports about how much public saving they achieve compared to the costs of their operation. In the UK, its latest impact assessment[263] shows that the CMA exceeded its 10:1 public savings/cost ratio target by achieving benefits worth an estimated GBP 1,228,000 per year against a GBP 66,000,000 budget: a benefit/cost ratio of 18.6:1 for 2014–2017.[264] The national reporter notes, however, that less than 15% of this saving (GBP 138,200,000) was attributed to the CMA's competition enforcement work. It is highly unlikely that the CMA's criminal cartel enforcement activities achieve the CMA's central 10:1 benefit/cost target.

Due to the secret nature of cartels, one can never be certain why cartel cases drop or increase before a competition authority; evidently, serious corporate fines can deter and, in some cases, also punish wrongdoers. Bruno Lasserre, back then President of the FCA, recalled that some years ago, 50% of the activities of the Competition Council were dedicated to tendering agreements in the building and public works sector, and due to weak sanctions, the same companies continued to implement anti-competitive agreements. Following the imposition of harsher penalties, the number of anti-competitive practices decreased.

*Recidivism* can be a sign of a lack of deterrence. The Hungarian report mentions several cases where one or more parties (including banks, construction companies and mills) were sanctioned for breach of the Competition Act two or more times. The HCA would impose much higher fines in case of repeat infringements. The amount of the fine calculated according to the Antitrust Fine Notice is increased each and every time by a maximum of 100%. This means that if the same undertaking takes

[263]For Financial Year ending 31 March 2016.

[264]Ibid, Table 1. See Section **Fehler! Verweisquelle konnte nicht gefunden werden.** above for detailed explanation of the CMA's objectives.

part in the same infringement for the third time, the fine could be three times higher than it would be in the absence of recidivism. In Brazil, the Competition Act stipulates that fines for repeat infringements shall be doubled.

The Belgian report mentioned an interesting provision for interpreting *recividism in a broader than national geographic context*. The 2014 Fining Guidelines is the continuation of repetition of the same or similar infringement in a Member State of the European Union, which has been subject to an infringement decision by the Commission or by the national competition authorities of France, Germany, Luxembourg, the Netherlands or the United Kingdom.

The UK report, however, does not support additional punishment at the individual level for recidivism. This is because there have been no reported cases where an individual who, having implemented one competition law infringement that was fined by a competition authority, subsequently went on to commit another. Recidivism does not seem to be a major problem in Spain either.

Before discussing potential new sanctions, it is worthwhile discussing how existing sanctions are used. There are significant differences between (administrative) monetary and criminal sanctions as far as their practice is concerned. Besides the different legal frameworks and procedural rules, the main practical difference is that in most jurisdictions, *criminal sanctions are almost never applied*. In contrast, the imposition of seemingly less painful *corporate fines has become the daily routine* of most competition authorities.

In summary, after comparing the national reports, the reader can get the overall impression that fairly high corporate monetary sanctions dominate the sanction landscape. In more and more countries, follow-on tort litigation also adds to the financial burden of companies (France, Germany, UK). Individual sanction, on the other hand, be it criminal, administrative or civil law in nature, with a few notable exceptions, do not seem to be enforced in practice. Neither is corporate criminal liability a part of the toolkit effectively used.

A summary table of top 5 fines imposed on corporations can be found in the Annex of this report. Three countries dominate the fining landscape. France comes first, followed by Germany and Italy. The list does not include the EU Commission, which would be the number one, which is not a great surprise considering that the Commission investigates those cartels that are the largest by their size. Most countries surveyed were not critical about the size of fines imposed in their jurisdictions. However, the Spanish report noted the average sanctions imposed by the CNMC between 2016 and 2018 amount to 2–6% of the turnover of the previous year for mono-product companies, even for long-term behaviours (of more than 10 years) and for very harmful cartels (those affecting public procurement). When a mitigating factor is applied, the amount is even lower.

Further study is needed to check to what extent the actual fines are sufficient in terms of their deterrent effect. According to Wils, due to the 10% cap applied by most jurisdictions, *administrative fines cannot be deterrent themselves.*[265] This

[265] W. Wils, Optimal Antitrust Fines: Theory and PRactice, Journal of Law and Economics 2005.

finding is supported by a recent study about the effectiveness of fines in Spain.[266] This shows that if the minimum illicit profit estimated by the author (3% of the turnover of the affected market) is taken as a reference, it is observed that 80% of the fines imposed are below 1, which implies that only 20% of the fines imposed between 2011 and 2015 achieve the objective of deterrence. The result is much more striking, as the author points out, when the average illicit benefit (13%) is used as a reference since in this case, none of the fines imposed in the analysed period reaches the deterrent threshold. In this sense, it is very significant that more than 90% of the sanctions imposed do not even reach 40% of the value of the optimal dissuasive sanction.

Except for Germany, most jurisdictions do not have impressive track records about imposing *individual administrative fines*. For example, in Spain, before 2016, this sanction was scarcely applied. The CNMC has just lately increased the sanctions imposed on individuals. Whereas in railway infrastructures individual sanctions were in the range of EUR 4000–10,000 euros, in media agencies they reached the amount of EUR 30,000–40,000.[267]

*Criminal sanctions*, however serious they may seem in the book, might not deter persons to infringe antitrust rules if they are never used. The introduction of criminal penalties soon after the millennium dominated the news and compliance education, yet this effect has faded away in many countries where prosecutors failed to make use of the (public procurement) cartel crime prohibition. Up to now, at least in the countries subject to this survey, no one had to serve prison sentences for bid rigging or any other cartel activities in Europe.

Even if some countries consider participation in a cartel or in bid rigging as a criminal offence, the enforcement track record is rather weak:

- In Austria, very few cases of bid rigging have been brought to court. The Austrian Supreme Court has so far never dealt with a case of Section 168b of the Austrian Criminal Code. From 2004 to 2015, only 11 persons have been convicted of bid rigging in the sense of Section 168b.[268]
- The Brazilian report mentions two criminal cases, regarding pre-trial detention in investigations into gas station cartels[269] and another one regarding a cartel of contractors.[270]

[266]J. García-Verdugo Sales. Valoración económica de las sanciones de competencia. Documento AE-01/16(0428).2. Ed. CNMC. Available at https://www.cnmc.es/sites/default/files/editor_contenidos/CNMC/DocumentosReferencia/Documento%20AE-01_16(0428).2.pdf. Accessed 6 November 2018.

[267]CNMC, S/0519/14 - Railway infrastructures, June 30, 2016 and S/DC/0584/16 - Media agencies, May 3, 2018.

[268]See W. Brugger, Kartellstrafrecht: Keine Ausdehnung des section 168b StGB über das Bundesvergabegesetz hinaus, wbl 2015, 366 at 366.

[269]Habeas Corpus case no. 0004381-81.2003.4.01.0000, from the Regional Federal Appellate Court of the 1st Region (Federal District).

[270]Habeas Corpus case no. 853-10.2017.4.02.0000 (2017.00.00.008853-8) from the Regional Federal Appellate Court of the 2nd Region (Rio de Janeiro and Espírito Santo).

- The French report pointed out the limited role of criminal sanctions in anti-competitive practices. Although criminal sanctions are available on paper, there have been no convictions over the past 5 years. The national report gave the following examples for previous criminal sanctions: 10 months of conditional imprisonment (2012)[271]; 1 year of conditional imprisonment and EUR 25,000 fine (2009)[272]; EUR 10,000/8000/5000/2000 fines (2009)[273]; 10 months of conditional imprisonment and EUR 20,000 fine; 15 months of conditional imprisonment and EUR 60,000 fine (2008)[274]; 3 months of conditional imprisonment (2007)[275]; 15 months of conditional imprisonment and EUR 60,000 fine; 12 months of conditional imprisonment and EUR 50,000 fine; 15 months of conditional imprisonment and EUR 50,000 fine (2007).[276]
- In Hungary, there has been only one case so far where the court sentenced someone for imprisonment due to the breach of the cartel offence (for 1 year, suspended for 2 years) and also ordered the individual to be disqualified from exercising her profession for 3 years.[277] The case concerned a public procurement tender for medicine by Budapest hospitals; one private person was convicted to suspended imprisonment for manipulating the results of such tender (following a finding of an infringement by the HCA against the companies concerned).
- The UK report notes that enforcement powers against individuals have been underused: it appears that this relates to the difficulty in securing a criminal conviction against an individual for cartel behaviour in the courts. Only one trial of the original cartel offence (the '*Marine Hose Criminal Investigation*'[278]) resulted in a sentence in excess of the maximum sentence available on indictment,[279] suggesting that the complexity of cases is a key driver in why all cartel offence cases thus far have been tried in the Crown Court. According to the national report, there were two other convictions. In the *Galvanized Steel Tanks* (September 2015), one person was convicted to 6 months' imprisonment, which was suspended for 1 year. In addition, 120 h of community service was ordered. In the *Precast Concrete* case (September 2017), the sanction was 2 years' imprisonment suspended for 2 years; for 6 months, between 6 pm and 6 am curfew was ordered. However, there has never been a successful contested prosecution of the cartel offence in the UK.

[271] Court of Appeal of Rouen 19 December 2012 - No. 12/00205.

[272] Court of Appeal of Rouen 14 December 2009 - No. 09/00028.

[273] Court of Cassation, Criminal Chamber, 17 June 2009 – n° 08-84.482.

[274] Court of Cassation, Criminal Chamber, 20 February 2008 – n° 02-82.676.

[275] Court of Appeal of Paris 11 December 2007 – n° 06/09190.

[276] Court of Appeal of Paris 27 February 2007 – n° 06/00406.

[277] Case No. Vj/28/2013 (Euromedic-Hungaropharma).

[278] *R v Whittle, Brammar and Allison* (unreported).

[279] Sentences ranging from 2.5 to 3 years were imposed, these were reduced to 20 months to 2.5 years on appeal.

- Germany is a notable example where individual sanctions, including criminal ones, do not only exist on paper[280]:
  - Bid rigging is relatively infrequent compared to many other crimes; still it plays a significant role in German competition law enforcement.[281] Crime statistics compiled by the German federal police report 77 clear-cut cases in 2016 and 94 such cases in 2015.[282] It must, however, be noted that these numbers reflect cases as they were passed on from police authorities to public prosecutors. Thus, they should not be equated with actual convictions. Yet a survey conducted by *Florian Wagner-von Papp* counts 297 convictions and 42 suspended prison sentences between 1998 and 2013, only referring to cases in which bid rigging was the most serious offence.[283] Almost all cases end with a criminal fine or a suspended prison sentence.[284]
  - As regards individual monetary sanctions, the German *Bundeskartellamt* makes widespread use of the possibility of fining individuals in addition to undertakings. Between 2008 and 2016, the authority fined managers and other representatives in 333 cases.[285] The lowest fine imposed was EUR 500; the highest fine was EUR 800,000.[286] The total amount of all fines imposed on individuals in the aforementioned time frame was EUR 24.4 million.[287] To name just one prominent example, in 2013/14, the *Bundeskartellamt* fined 14 individuals approximately EUR 3.6 million for having participated in a beer brewery cartel.[288] There are no empirical studies on the deterrent effect of individual penalties in Germany, but the *Bundeskartellamt* considers them a helpful addition to its toolbox.[289]

Despite the poor criminal enforcement record, the French report makes an important point: even if not enforced, these criminal sanctions remain a valuable

[280]On the other hand, aadministrative proceedings, i.e. those not involving fines, are relatively frequent too: out of 155 cartel proceedings listed on the Bundeskartellamt's website, only 57 were regulatory offence proceedings. Even more strikingly, only 4 out of 82 abuse proceedings were regulatory offence proceedings.

[281]See also the extensive reports by F. Wagner-von Papp, Compliance and Individual Sanctions in the Enforcement of Competition Law. In: Paha (ed), Competition Law Compliance Programmes, Springer 2016, pp. 149–158; What if all Bid Riggers Went to Prison and Nobody Noticed? Criminal Antitrust Law Enforcement in Germany. In: Beaton-Wells and Ezrachi (eds), Criminalising Cartels – Critical Studies of an International Regulatory Movement, Hart 2011, pp. 157–182.

[282]Federal Criminal Police Office (*Bundeskriminalamt*), Crime statistics, 2016, vol. 4 (DE), p. 128.

[283]F. Wagner-von Papp (note 283, 2016), p. 155.

[284]F. Wagner-von Papp (note 283, 2011), p. 182.

[285]Bundeskartellamt, Activity Report 2015/16, p. 33. Available at https://www.bundeskartellamt.de/DE/UeberUns/Publikationen/Taetigkeitsberichte/taetigkeitsberichte_node.html;jsessionid=3BD4FC0AF35E5D953462340525341511.2_cid387. Accessed 19 November 2018.

[286]Bundeskartellamt, Activity Report 2015/16, p. 34.

[287]Bundeskartellamt, Activity Report 2015/16, p. 33.

[288]Bundeskartellamt, Case Report of 2 April 2014 – B10-105/11 (DE), p. 3.

[289]Bundeskartellamt, Activity Report 2015/16, pp. 33–34.

tool for companies in implementing their *compliance programmes*. The existence of these criminal sanctions is brandished by the companies at their employees in order to make them aware of the risk of them taking part in an anti-competitive practice.

National reporters could not identify many cases involving sanctioning individuals in a non-criminal way.

In the UK, there has been an increasing use of director disqualification powers in recent years. Between 2013 and 2017, there were just two director disqualifications. In the *Online Sales of Posters and Frames* price-fixing agreement case, a DDU for 5 years was given (November 2016). In the *Precast Concrete Drainage* cartel offence case, a DDO for 7 years was ordered.

Trading prohibition of individuals has been in place for a decade in Sweden, but no such request has yet been made by the SCA.

Confiscation proceedings, available under UK criminal law, have only been brought once in cartel offence cases—in the *Marine Hose Criminal Cartel Case*. Two of the three defendants were ordered to pay GBP 366,354 and GBP 649,636, respectively, or face a further term of imprisonment.[290]

We have even less information about follow-up sanctions on managers/employers by employees. Corporations do not seem to have a positive track record in effectively enforcing measures to punish their responsible employees/directors who actually committed the unlawful conduct.

In Hungary, there was one case where an employee of a company who had been fined by the EU Commission for participating in an international cartel sued this person for damages. The judge did indeed award damages amounting to 3 months' salary, as capped by the relevant labor/employment laws.[291] The legal proceeding did not discuss the question of how any potential gain resulting from the cartel can be balanced with the actual fine imposed on the company. The judge emphasised that an employee who has been involved in international business deals for decades ought to have been aware of basic cartel rules (i.e. the prohibition of a price cartel) and that serious fines can be imposed. The lack of a precise compliance programme was not an excuse (following the Commission procedure, the company updated its ethical codex and launched a comprehensive compliance programme). Therefore, his action was negligent (but not wilful), so he could not be held liable for the whole damage caused.[292]

Hungary's experience suggests that the introduction of the bid-rigging offence did not lead to the disruption of traditional administrative competition investigations. The HCA's investigation and the criminal proceedings can be conducted in parallel; however, in practice the criminal courts await the outcome of the HCA's investigation since the HCA has wider experience and resources in investigating cartel infringements.

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[290] See https://www.gov.uk/cma-cases/marine-hose-criminal-cartel-investigation. Accessed 6 June 2018.

[291] Case 26.M.1015/2014/4., judgment of the Budapest-Capital Administrative and Labor Court of 23 April 2013.

[292] The company itself sued the employee just for a fraction of the fines imposed by the EU Commission.

## 1.4 The Way Forward, Need for Change?

In most jurisdictions, fines are imposed on the corporation and not on those individuals who organised/participated in the unlawful conduct. Managers are interested in the achievement of profit-related figures, even risking potentially unlawful conduct, whereas sanctions are imposed not on them but on the company. In many instances, responsible individuals are not even at the company any more when it comes to the imposition of the sanction (4–5 years after the unlawful conduct had taken place).

It seems that most jurisdictions do not have a general *corporate criminal* prohibition of anti-competitive agreements, and there is no public pressure to criminalise anti-competitive conduct as such. High corporate administrative fines seem to have the sufficient deterrent effect on company level. Deterrence is served even better if companies have to face exclusions from public tenders as a result of a cartel.

The French report made an interesting point based upon the insights of behavioural economics. According to Sibony, one has to take into account the limited rationality of entrepreneurs whose decisions are often the result of an excess of confidence, leading to distortion, as compared to what a more rational decision would have been. Such an excess of optimism can lead to predatory strategies that do not reunite the conditions of rational profitability and that can lead to maintaining cartels in spite of very important sanctions.[293] This tendency toward limited rationality suggests that the increase of financial penalty is not sufficiently deterrent and that other forms of sanctions, not harmful to the undertaking, should be applied (i.e. to the employees as a group), such as criminal and other individual sanctions towards the natural persons who committed a breach (directors).[294] According to the French report, developing the application of criminal sanctions, especially to the employees who are personally involved in the implementation of the anti-competitive practice, would probably introduce a more deterrent effect as it would entail the imposition of financial penalty.

Even though criminal sanctions could have positive effects, the lack of their consistent and frequent application will undermine their deterrent effects. Over-criminalisation of business-related unlawful conduct combined with poor enforcement is a general problem in many jurisdictions, so the introduction or extension of corporate criminal liability is not recommended by this report. However, there seems little prospect to decriminalise existing rules on public-procurement-related cartels since they involve not only the protection of competition but also the protection of public money and its fair spending. There is also an example for the recent decriminalisation of unlawful commercial activities: Ukraine abolished criminal liability for the violation of

[293] See A. L. Sibony in its contribution to the report 'For a reform of Competition Law'; Sibony, A.-L. (2012). La motivation des sanctions prononcées en justice. Les fondements économiques. Paper presented at 27ème colloque des Instituts d'études judiciaires. La motivation des sanctions prononcées en justice: nouvelles tendances, nouveaux enjeux, Amiens, France. Available at http://hdl.handle.net/2268/155124. Accessed 13 November 2018.

[294] A. L. Sibony in its contribution to the report 'For a reform of Competition Law'.

competition rules as it had been enshrined in Section 228 of the Criminal Code before 2011. One of the complexities of proving a crime is the lack of enforcement.

Adding the increasing likelihood of private claims for damages to sever fines imposed by competition authorities, it is highly likely that illegal enrichment will be taken away at corporate level, even in the absence of criminal sanctions.

Deterrence can be increased if existing sanctions are used more effectively, more often and more visibly. The Swedish report quotes *Baker*, who points out that consistency and comprehensiveness in enforcement are very important and that 'enforcement must be frequent and highly visible'. Effective deterrence requires that those who might be tempted to take illegal action believe that there is some reasonable probability of them being caught and that, if this happens, the consequences are likely to be grave.[295] Also, former assistant attorney General *Barnett* declared that deterrence only works when the consequences are real. To effectively deter cartels, antitrust enforcers must aggressively and predictably prosecute cartelists and use the full range of weapons in the enforcement arsenal.[296] As *Scordamaglia-Tousis* puts it, the goal of effective deterrence depends on two components: the level of the fines and the likelihood of being caught.[297]

Similarly, the authors of the Hungarian report emphasise that in order to achieve the goal of deterrence, there should be a high likelihood of being punished. The mere possibility of sanctions cannot deter someone to commit a crime if the authorities are not able to enforce the law properly. As Beccaria[298] wrote in the eighteenth century, it is not the severity of the sanction that has the power of deterrence but the *inevitability* of such sanction. Furthermore, a well-functioning *leniency policy* inducing companies or individuals to report cartels also adds to the deterrence effect by creating distrust among cartel members.

Research conducted by the OFT in 2010 suggested that reputational damage was an even more powerful driver of compliance than the threat of fines[299] and that the threat of DDOs was a useful driver of compliance.[300] Publishing widely antitrust sanctions could thus contribute to the goals of sanctioning.

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[295] J. Baker, Punishment for Cartel Participation in the US: A Special Model? In: Beaton-Wells and Ezrachi (eds), *Criminalising Cartels – Critical Studies of an International Movement,* Hart Publishing, 2011, at p. 35.

[296] *Seven Steps to Better Cartel Enforcement*, Speech made by Thomas O. Barnett, Assistant Attorney General of the Antitrust Division of the US Department of Justice, at the 11th Annual Competition Law & Policy Workshop, European Union Institute in Florence Italy, 2 June 2006, http://www.justice.gov/atr/speech/seven-steps-better-cartel-enforcement#N_7_.

[297] A. Scordamaglia-Tousis, EU Cartel Enforcement – Reconciling Effective Public Enforcement with Fundamental Rights, Wolters Kluwer, 2013, p. 12.

[298] C, Beccaria, On Crimes and Punishments, Italy 1764.

[299] Drivers of Compliance and Non-compliance with Competition Law, OFT 1227, May 2010, paragraph 4.1.6.

[300] Drivers of Compliance and Non-compliance with Competition Law, OFT 1227, May 2010, paragraph 4.1.7.

However, many jurisdictions have no rules targeting the *individual* wrongdoer. Competition authorities do not look behind the corporate veil. Obviously, for an administrative authority, it is more comfortable to proceed against and sanction legal entities, instead of punishing flesh-and-blood persons. The absence of individual sanctions can make the punishment of those companies, indirectly their owners unfair who did whatever they could to hinder anti-competitive actions by their managers and other employees (i.e. through the introduction of an effective compliance programme).

For example, several documents, including a report of 20 September 2010 on the assessment of penalties for anti-competitive practices,[301] have expressed criticisms of the sanction mechanisms offered by French law against anti-competitive practices. In particular, it was argued that a sanction system focused on the company as a legal entity posed difficulties and that many stakeholders remained in favour of a more diversified sanction system, as compared to administrative sanctions that include a significant dimension of the liability of natural persons.[302]

There is therefore a need for creating personal liability and personal sanctions, either in the realm of criminal law (jail sentence, criminal fines, disqualification) or in the administrative field (administrative fines, disqualification measures).

The UK report suggests that professional sanctions, including director disqualification, should be sought in all cases. DDOs and DDUs are only available for persons who are *currently* company directors.[303] There does not seem to be any compelling reason why a DDO or a DDU should not be sought against someone who has not yet been made a director, if their conduct makes them unfit to be involved in the management of a company.

I should mention that the Italian report was not in favour of individual antitrust sanctions at all, whether criminal or administrative. The authors noted that labour law provisions already enable undertakings to take actions, including dismissal, against employees who participated in antitrust infringements. It seems to me that this approach assumes in essence that individuals are naturally law-abiding citizens. I acknowledge that the importance of this factor should not be underestimated and also its importance may vary from country to country; sanctions deterring individual wrongdoing might still be necessary.

Given the lack of public support for criminalising cartels, it is wiser to start this process through introducing individual administrative sanction.

Criminal sanctions for individuals who engage in the making and carrying out of cartel agreements can greatly add to deterrence by way of introducing a risk that companies cannot financially compensate for. Furthermore, by emphasising the

[301] J. M. Folz, C. Raysseguier and A. Schaub, Rapport sur l'appréciation de la sanction en matière de pratiques anticoncurrentielles, Available at https://www.economie.gouv.fr/files/finances/services/rap10/100920rap-concurrence.pdf. Accessed 6 November 2018.

[302] The report also indicates that others remained unfavourable, fearing that it would be impossible to punish managers and that only lower-level managers would in practice be punished.

[303] See Section - above.

moral wrongfulness of the behaviour, criminal sanctions can ensure greater compliance with the prohibition against engaging in cartel activity. If the harm and moral wrongfulness of the cartel conduct were widely understood, more people may refrain from participating in cartels because (i) they do not want to break a moral norm or (ii) they fear social condemnation and alienation resulting from breaking a moral norm[304] or (iii) individuals estimate the risk of detection and prosecution to be higher when they agree with a law and its application to them.

According to the Italian report, the serious nature of criminal sanctions does not seem justified in the case of the complex and controversial conducts that usually result in competition law breaches.

The debate about introducing *individual sanctions* may overlap in many respects with the discussion of *criminalisation* (see our final chapter). The debates in Switzerland where there is no individual liability for infringing antitrust rules serve as a good example for the typical pro and contra arguments. During the last revision of the CartA in 2003, there were intensive discussions in the Swiss Federal Parliament on a possible extension of sanctions against individuals.[305] Advocates of the introduction of direct sanctions against individuals argued that direct sanctions take into account the fact that anti-competitive agreements were made not by the companies themselves but by the persons acting on their behalf. Furthermore, they argued that direct sanctions against individual persons would be more effective as those responsible for the infringement would be personally liable. In addition, it was argued that those in charge would apply an increased level of duty, whereas sole direct sanctions against undertakings would only harm investors while those responsible could still escape from being held liable. Those opposing the introduction of direct sanctions against individuals argued that the introduction of direct sanctions against undertakings will be sufficient to discourage breaches of competition law. Sanctions against undertakings will encourage undertakings to take internal precautionary measures to combat anti-competitive conduct, and additional measures were not necessary. It was also claimed that there would be serious difficulties of attributing an anti-competitive behaviour to an individual.[306] Even after the 2003 revision of the CartA, there have been unsuccessful efforts in the Swiss Federal Parliament to introduce direct sanctions against individuals. There was a motion in the Parliament in 2007 for 'A more balanced and effective system of sanctions for Swiss competition law', which demanded a provision in the CartA that would ensure that undertakings that operate antitrust compliance programmes should be subject to no sanction or a reduced sanction. Consequently, in order to strengthen companies'

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[304] A. Stephan, The Battle for Hearts and Minds': The Role of the Media in Treating Cartels as Criminal in: Caron Beaton-Wells and Ariel Ezrachi (eds), Criminalising Cartels: Critical Studies of an International Regulatory Movement Hart Publishing 2011, 393.

[305] For a comprehensive overview of the revision of the CartA in 2003 please refer to F. Bremer, Strafsanktionen gegen natürliche Personen im schweizerischen Kartellrecht, Stämpfli Verlag 2015, p. 220.

[306] An overview of the parliamentary debates can be found in the Official Bulletin of the Swiss Federal Parliament AB 2002 Para. 1458 et seq.

compliance efforts, it was urged that the CartA should also include penalties for individuals who actively participate in cartel agreements.[307] One year later, it was requested that anyone who, in violation of statutory or contractual fiduciary duties towards the undertaking, intentionally and through active acts, participates in an anti-competitive agreement pursuant to the CartA should be punished with a custodial sentence of up to 3 years or with fines.[308] In 2010, there was another motion in the Parliament requesting that the CartA must be tightened and become more deterrent by introducing direct sanctions against individual persons, which should not be at the expense of undertakings.[309] According to the Swiss report, the reasons why direct sanctions against individuals have not been introduced in Switzerland are manifold. First, criminal liability of individuals would require proof of intent, which would be difficult to prove in practice.[310] Second, it was also considered risky that responsibility for competition law infringements could be passed to lower-level employees for the benefit of the undertaking itself.[311] However, one of the main reasons seems to be that by introducing direct criminal sanctions against individuals, the effectiveness of the rather newly introduced sanctions against undertakings and of the leniency programme would be put at risk.

The Swiss report emphasised that as direct competition law sanctions against undertakings were only introduced in 2004, it seems too early for evaluating the need for the introduction of direct sanctions against individuals. It also notes based on similar initiatives in the past that the introduction of direct criminal sanctions against individuals is only a matter of time.[312] It is believed that sanctions against individuals, whether in the form of administrative or criminal sanctions, have a considerably higher deterrent effect than do sanctions against undertakings.[313] According to a study, which evaluated the CartA, the introduction of criminal sanctions against individuals is not necessary in Switzerland, but instead the introduction of administrative sanctions against individuals may be considered. However, the study suggests that in order for direct administrative sanctions against individuals to be introduced, COMCO should first develop a consistent administrative sanction practice against undertakings on the basis of the existing law and thus create

[307]Parliamentary Motion R. Schweiger (07.3856), A more balanced and effective system of sanctions for Swiss competition law, 20 December 2007.

[308]Parliamentary Initiative by H. Kaufmann (08.443), Preventing existential threats which result from competition law fines, 13 June 2008.

[309]Parliamentary Motion by D. De Buman (10.3302), For real competition and lower prices, 19 March 2010.

[310]Statement of the Federal Council in respect to the Parliamentary Motion R. Schweiger (07.3856), A more balanced and effective system of sanctions for Swiss competition law, 20 December 2007.

[311]Protocol of the Commission for Economic Affairs and Taxation of 5/6 October 2009.

[312]B. Althaus, Die Sanktionen des Kartellgesetzes im Wandel der Zeit. In: Canapa/Landolt/Müller (ed), Sein und Schein von Gesetzgebung, Dike Verlag 2018, pp. 221–241.

[313]Evaluation on the CartA (2009), p. XIX, https://www.weko.admin.ch/weko/de/home/dokumentation/evaluation-und-revision-des-kg/evaluation-des-kartellgesetzes.html. Accessed 27 August 2018.

predictability and legal certainty for undertakings and individuals.[314] If such sanctions against individuals were to be introduced, the legal framework should be built in such a way that companies should be prevented from evading responsibility at the expense of employees. Furthermore, such sanctions should be limited to particularly harmful, hardcore horizontal agreements. Finally, according to the study, individual administrative sanctions would have to be combined with the possibility of a bonus programme for individual persons in order not to damage the existing leniency programme for undertakings.[315]

The difficult choice between criminal and administrative individual sanctions can also be illustrated with the lengthy debates that took place also in Belgium. The public discussion was fuelled by the conclusion of an OECD country report on Belgium, which suggested in 2009 that 'deterrence would be enhanced by introducing criminal sanctions such as prison sentences for hardcore cartel infringements'.[316] Nonetheless, the Parliament decided to enact administrative sanctions (i.e. administrative fines) rather than criminal sanctions since it feared that criminal sanctions could cause unwanted interference with leniency programmes and administrative proceedings before the BCA.[317] The Parliament also refrained from including director disqualification as a potential sanction since it believed that sanction would be considered by courts as a criminal sanction under the ECHR, the imposition of which, contrary to administrative sanctions, requires that all guarantees present in criminal proceedings would need to be abided by. It is also important to underline that no sanctions were enacted for abuse of dominant position, which the legislator believed to be too vague to be used as a description of a crime or an administrative offence.

The Swedish report also noted that years were spent on debating whether or not to criminalise cartels. Finally, the legislator settled for another type of individual sanction in 2008, introducing trading prohibitions on company representatives.

Brazil can be mentioned as an example of rolling back criminal sanctions against individuals. Following an amendment of a criminal law on various white-collar crimes in 2011, only participation in a cartel is a crime. The reporter notes that such deregulation may send the wrong message that other anti-competitive agreements, like vertical restrictions, are not regarded harmful by the legislature any more.

[314] Evaluation on the CartA (2009), p. XX, https://www.weko.admin.ch/weko/de/home/dokumentation/evaluation-und-revision-des-kg/evaluation-des-kartellgesetzes.html. Accessed 27 August 2018.

[315] Evaluation on the CartA (2009), p. XX, https://www.weko.admin.ch/weko/de/home/dokumentation/evaluation-und-revision-des-kg/evaluation-des-kartellgesetzes.html. Accessed 27 August 2018.

[316] OECD, Economic Surveys: Belgium, OECD Publishing, 2009, p. 118.

[317] Criminal sanctions against corporations are nevertheless available in Belgium. According to a recent amendment, criminal liability of a corporation does not exclude the criminal liability of the natural persons who participated in the infringement.

The deterrent effect of cartel criminalisation is undermined if there is no public and political support for the offence. A recent survey conducted among French citizens at the request of the FCA in January 2018 testing the opinion of French citizens on cartels has also revealed a strong moral disapproval of these practices. The respondents are favourable to the application of individual sanctions in addition to the sanctions imposed on companies and 'consider that the sanctions must be sufficiently dissuasive (...) without going as far as prison sentences'.[318] This suggests a focus on managers' and employees' liability.

Criminal cartel enforcement powers were not popular with NCAs who responded to the Commission's consultation in 2016 on empowering the national competition authorities to be more effective enforcers. The Slovak competition authority noted the higher standard of proof required in criminal cases,[319] while the Portuguese competition authority doubted that criminal law was suitable in competition cases.[320] Even the Irish competition authority, which arguably has had more success than any other EU NCAs in prosecuting individuals for competition offences, was not in favour, noting the following:

> Traditional criminal offences are not the most effective or efficient approach to ensuring compliance. The evidentiary requirements, the complex economic analysis involved in many cases and the criminal standard of proof are such that criminal prosecution is neither practical nor appropriate in most cases. With the exception of the simplest of hard-core cartel offences (which may be more readily understood by a jury) NCAs will not be likely to adopt this approach and most undertakings will not treat these offences as a realistic deterrent.

The re-regulation of the cartel offence in the UK did not make it easier to punish cartel members under criminal law. This is in line with the public opinion. The YouGov 2014 Survey shows that the British public backs fines (77% were in favour) and the availability of follow-on damages (72% were in favour) for competition infringements.[321] However, the British public is not supportive of imprisonment as a punishment for the cartel offences, with only 27% being reportedly in favour of imprisonment.[322] Even though this represents an improvement on the 11% found in

[318] Available at http://www.autoritedelaconcurrence.fr/doc/sondage_ifop_presentation_jan18.pdf. Accessed 6 November 2018.

[319] Antimonopoly Office of the Slovak Republic response. Available at http://ec.europa.eu/competition/consultations/2015_effective_enforcers/antimonopoly_office_of_the_slovak_republic_en.pdf, page 9. Accessed 6 November 2018.

[320] Portuguese Competition Authority response. Available at http://ec.europa.eu/competition/consultations/2015_effective_enforcers/portuguese_competition_authority_en.pdf Accessed 6 November 2018.

[321] A. Stephan 'Survey of Public Attitudes to Price Fixing in the UK, Germany, Italy and the USA', CCP Working Paper 15-8, Table 7.

[322] Ibid, Table 8.

the YouGov 2007 Survey,[323] support for imprisonment for cartelists is still very much a minority view.

The German report mentions two recent reform discussions, one abolishing the quasi-criminal enforcement system, another one about the further criminalisation of competition law and the introduction of genuine corporate criminal liability.

The Bundeskartellamt has taken the initiative to explore a shift from the quasi-criminal system of imposing and reviewing fines under the OWiG/StPO towards a purely administrative system, as known from EU competition law and other Member States. The competition authority criticises that it is time-consuming and costly to comply with all the requirements of the German Code of Criminal Procedure, the StPO, and argues that efficiency-enhancing alterations could be made without unduly curtailing the appellants' procedural rights. The criminal law principle of orality (*Mündlichkeitsgrundsatz*) may be inappropriate for competition law proceedings, in which case files are often full of complex, highly technical details. The authority has set up a study group for exploring the modernisation of procedural law in 2013. An interim report was published in 2015.[324] In this document, the Bundeskartellamt recommends to replace the current fining and review system—including a de novo decision by the competent court based on a full hearing of evidence, if an objection is filed against the original decision—with a purely administrative system such as the one established under Regulation 1/2003.[325] Fines would then be administrative in nature, criminal law principles would not apply and decisions would only be reviewed for legal or discretionary mistakes (including the adequacy of the amount of the fine). The duality of administrative and regulatory offence proceedings could be set aside, and the competition authorities could defend their cases instead of passing them on to public prosecutors, who are less experienced with competition law.

On the other hand, it is also much debated in Germany whether more competition law offences, in addition to bid rigging, should be made crimes.[326] Horizontal price fixing is the most obvious candidate as it does not seem to matter from the perspective of competition policy whether prices are fixed for public procurement

[323] A. Stephan 'Survey of Public Attitudes to Price-Fixing and Cartel Enforcement in Britain (2008) 5 Competition Law Review 123', Section 3.4.

[324] Bundeskartellamt, Interim Report concerning the Study Group on Cartel Sanctions, 12 January 2015, published in NZKart 2015, pp. 2–14 with accompanying statements by members of the study group.

[325] Bundeskartellamt, Interim Report (note 326), pp. 6–8.

[326] W. Frenz, Ausreichendes Kartellbußgeldsystem – keine Notwendigkeit von Haftstrafen, WRP 2006, pp. 367–374; M. Dreher, Wider die Kriminalisierung des Kartellrechts, WuW 2011, pp. 232–244; F. Wagner-von Papp, Kriminalisierung von Kartellen, WuW 2010, pp. 268–282; J. Biermann, Neubestimmung des deutschen und europäischen Kartellsanktionenrechts: Reformüberlegungen, Determinanten und Perspektiven einer Kriminalisierung von Verstößen gegen das Kartellrecht, ZWeR 2007, pp. 1–48; M. Achenbach, Strafrechtlicher Schutz des Wettbewerbs?, Peter Lang 2009; B.A. Federmann, Kriminalstrafen im Kartellrecht, Nomos 2006; C. Kohlhoff, Kartellstrafrecht und Kollektivstrafe, Duncker & Humblot 2003.

procedures or for open markets. One of the main proponents of criminalisation is the Monopolies Commission (Monopolkommission), an advisory body to the Federal Government. Its detailed report of 2015 called for the criminalisation of hardcore offences in order to enhance the incentives for individual managers and employees.[327] The Bundeskartellamt opposed the recommendation, emphasising instead the effectiveness of its fining policy towards individuals.[328] The competition authority fears that a further criminalisation would complicate investigations and procedures without adding much to deterrence. Additionally, more severe penalties for individuals could threaten the effectiveness of the *Bundeskartellamt's* leniency programme, unless the German legislator would decide to enable public prosecutors to offer similar protections also in criminal law proceedings. Accordingly, the Ministers of Justice of the sixteen German *Länder* decided in November 2016 not to pursue a further criminalisation of competition law offences.[329] Instead, they want to evaluate an extension of the existing criminal leniency programme, Section 46b StGB, to cases concerning the bid-rigging offence under Section 298 StGB.[330]

Another recent reform discussion concerns the question whether German law should recognise corporate criminal liability.[331] So far, only individuals are capable of committing crimes, whereas organisations may only be fined vicariously under Section 30 OWiG for crimes and regulatory offences committed by their representatives. In light of recent corporate scandals (Siemens, Volkswagen), it is frequently argued that the OWiG's system of quasi-criminal sanctions for undertakings is insufficient. One problem is that Section 30 OWiG requires the identification of a specific individual who committed the offence, leaving no room for genuine organisational offences committed through the interaction of several people. Moreover, Section 30 OWiG is rarely applied in practice, which may be due to the fact that administrative authorities make a discretionary decision on whether or not to prosecute these cases (*Opportunitätsprinzip*), Section 47(1) OWiG. The state of North Rhine-Westphalia presented a proposal for a law on corporate criminal

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[327] Monopolies Commission, Special Report 72: Criminal sanctions for cartel infringements (27 October 2015).

[328] Bundeskartellamt, Activity Report 2015/16, p. 13. Available at https://www.bundeskartellamt.de/DE/UeberUns/Publikationen/Taetigkeitsberichte/taetigkeitsberichte_node.html;jsessionid=3BD4FC0AF35E5D953462340525341511.2_cid387. Accessed 19 November 2018.

[329] Bundeskartellamt, Activity Report 2015/16, pp. 13, 33.

[330] Bundeskartellamt, Activity Report 2015/16, pp. 13, 33.

[331] G. Ortmann, Für ein Unternehmensstrafrecht – Sechs Thesen, sieben Fragen, eine Nachbemerkung, NZWiSt 2017, pp. 241–251; G. Wagner, Sinn und Unsinn der Unternehmensstrafe, ZGR 2016, pp. 112–152; G. Dannecker and C. Dannecker, Europäische und verfassungsrechtliche Vorgaben für das materielle und formelle Unternehmensstrafrecht, NZWiSt 2016, pp. 162–177; J. Wessing, Braucht Deutschland ein Unternehmensstrafrecht?, ZWH 2012, pp. 301–305; J.C. Dous, Strafrechtliche Verantwortlichkeit in Unternehmen, Peter Lang 2009; S. Kindler, Das Unternehmen als haftender Täter, Nomos 2008.

liability in 2013,[332] but the draft never entered the legislative process due to little prospect of success. In 2017, scholars at the University of Cologne published another proposal.[333] Furthermore, Germany's governing parties have announced in their coalition agreement of February 2018 that they seek to amend the law on corporate sanctions by extending the principle of mandatory prosecution and allowing for higher fines (although this might not concern competition law fines that may already exceed the ordinary statutory cap of EUR 10 million).[334] Moreover, the parties announced to create 'new sanctions', though they did not become any more specific.[335]

The UK report was not particularly in favour of criminal sanctions against individuals. Rather, director disqualification proved to be an effective individual sanction. The report recommends its continued use and suggests that the statutory powers of director disqualification be expanded to cover those who were not directors at the time of the infringement of competition law. Given the difficulties in bringing criminal cartel cases, and the disruption that they cause to civil enforcement and follow-on damages actions, the report recommends that criminal powers be reserved only for the most egregious cases. Neither would an EU-wide cartel offence be welcomed in the UK.

The majority of national reporters did not come up with proposals drastically reshaping the sanctioning landscape. The Swedish and the German reports suggest institutional changes, i.e. moving from a judicial or quasi-criminal enforcement system into an administrative one, making the competition authorities more powerful and efficient in the eyes of the public.[336] The Swedish report adds that when making institutional choices, the legislator must therefore ensure not only that the enforcement system is effective but also that it is governed by the rule of law, ensures transparency and affords adequate fundamental rights protection.

The Italian report opposed the mismatch between the personal scope of criminal law (natural persons) and competition law (undertakings) was emphasised.

The Austrian report also raised an institutional issue regarding the intersection between competition law and criminal law. Bid rigging may fall within the ambit of the Austrian Cartel Act and the Austrian Criminal Code. However, the institutions enforcing competition law and criminal law are different. While competition law is enforced by the competition authorities, the public prosecutor has to bring an action before a criminal court. First, the fundamental question may be raised whether more specialised competition authorities would be better placed to deal with bid rigging than criminal courts. Arguably, it would suffice to include the fact that public bodies

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[332] Entwurf eines Gesetzes zur Einführung der strafrechtlichen Verantwortlichkeit von Unternehmen und sonstigen Verbänden (2013).

[333] M. Henssler, E. Hoven, M. Kubiciel and T. Weigend, Kölner Entwurf eines Verbandssanktionengesetzes 2017.

[334] CDU, CSU and SPD, Coalition agreement (7 February 2018, DE), p. 126.

[335] Idem, p. 126.

[336] The SCA has lost all but one case in the last five years before the courts.

are harmed from bid rigging in the list of aggravating factors enshrined in Section 30 of the Austrian Cartel Act. Second, the dualism of enforcement by competition authorities and public prosecutors raises numerous challenges, especially when it comes to leniency programmes. When a company applies for leniency in the context of bid rigging, this may put its employees at risk of criminal prosecution. Even though a certain level of harmonisation exists,[337] this risk should be further addressed by the Austrian legislator in order to foster the leniency policy also in the context of bid rigging.

The Hungarian report suggests that deterrence can be strengthened through individual non-criminal sanctions, which are currently absent under Hungarian law. However, great care should be exercised in order to devise an effective system that also complies with procedural safeguards as protected by the ECHR and the Constitution. As a negative example, the Competition Act's 2008 amendment is cited. This envisaged a quasi-automatic disqualification of executive officers of companies that participated in a competition law infringement for 2 years. However, the President did not sign the amendment but referred the fair trial and presumption of innocence issues to the Hungarian Constitutional Court. The court found these provisions unconstitutional due to procedural/due process grounds, and thus they never entered into force. The amendment foresaw a two-stage process. First, the HCA would adopt another decision on establishing—on the basis of the company registry—the identity of those who were senior officials in the period of committing the breach of competition law. Then, a second decision would prohibit those persons from holding such positions for 2 years. Both of these decisions were subject to challenge by the relevant persons, but only in the framework of a non-litigious administrative judicial review procedure. According to the Constitutional Court, the exclusion of a natural person from his/her profession is a sanction of a criminal nature. The sanction is to be applied in a uniform and automatic manner against the senior officials based upon the assumption that the official is necessarily individually responsible for committing the serious breach of the competition law established with regard to the company. The Constitutional Court found that proposed non-litigious procedure for the review of such sanction would hinder the affected natural persons challenging the merits of the decision (for example, they cannot contest their liability by supplying evidence in the procedure due to the very limited nature of evidence taking available in the non-litigious procedure).

As to other suggestions to create an effective sanction regime, the Austrian report suggested that rules on parental liability should be drafted and interpreted consistently in the same jurisdiction regardless of whether competition or civil law is applied. It is argued that parent companies should be held liable in damage actions the same way as they are responsible under (administrative) competition law.

The Austrian report also mentioned the missing liability for the members of an association of companies.

[337] See Sec 209b of the Austrian Code of criminal procedure.

As regards the role of compliance programmes, we recommend that both pre-existing and new compliance programmes should be considered as a mitigating factor relevant to the imposition of fines. The UK report suggests that additional incentives for undertakings to demonstrate that they had adequate procedures designed to prevent breaches of competition law prior to the breach of competition law may cause greater compliance. The current compliance discount offered by the CMA has only been applied to compliance programmes imposed *after* the infringement took place[338]; however, the CMA's Fining Guidelines are drafted in a sufficiently broad way to allow the CMA to take pre-existing compliance programmes into account.[339]

Finally, there is no realistic perspective for creating an EU-wide cartel offence. The UK report notes that where EU law has been used to create criminal offences, offences have not been created directly. Rather, Member States have been directed to create criminal offences themselves.[340]

## LIDC Resolution

Whereas imposing sanctions on companies (or other legal persons) for competition law infringements is not sufficient to achieve the goals of deterrence and punishment;

Whereas fines imposed on companies, however high they may be, punish the owners/shareholders of the company and do not reach the individual wrongdoer; and

Whereas the choice of whether to rely on criminal sanctions or administrative sanctions may depend on many factors, including cultural and constitutional traditions,

The LIDC recommends that:

The introduction and enforcement of sanctions against individuals responsible for competition infringements should be considered, in addition to financial and other sanctions against their companies;

If administrative sanctions are adopted against companies or individuals, care should be taken to ensure a level of procedural protection consistent with the penal nature of the sanction; and

Whenever companies are fined, well-intentioned efforts to avoid infringements, i.e. in the form of a genuine, functioning compliance program, should be duly taken into account as a mitigating circumstance.

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[338]See Section Fehler! Verweisquelle konnte nicht gefunden werden. above.

[339]Notably, on 20 April 2018, the Italian Competition Authority launched a consultation on its draft competition compliance guidelines, which explicitly set out separate discounts for compliance programmes in place before an infringement takes place and compliance programmes in place after an infringement takes place.

[340]See for example Council Framework Decision 2002/475/JHA of 13 June 2002 on combating terrorism, which directed Member States to criminalise certain actions related to terrorism.

Top 5 highest fines per jurisdiction imposed in one procedure

| Country | Case | Year | Fine (EUR) |
|---|---|---|---|
| France | Home and personal care products sold in supermarkets | 2014 | 951.219 million |
| Brazil | Votorantim, Holcim, Cimpor, Itabira | 2014 | 730.2 million |
| Brazil | Hospital gas companies | 2010 | 683.1 million |
| France | Delivery service (transporting parcels) industry | 2015 | 672.332 million |
| France | Telecommunications/business market | 2015 | 350 million |
| Germany | Sausage cartel | 2014 | 338.5 million |
| Germany | Beer cartel | 2014 | 338 million |
| France | Cartel in the floor coverings sector | 2017 | 302.3 million |
| Germany | Sugar cartel | 2014 | 281.7 million |
| France | Cartel in the fresh dairy product sector (yoghurts, fromages blancs, milk-based desserts, etc.) | 2015 | 192.7 million |
| Italy | Roche-Novartis/Farmaci Avastin e Lucentis | 2014 | 182.5 million |
| Italy | Aumento prezzi cemento | 2017 | 179.4 million |
| Belgium[a] | Personal care, hygiene and cleaning products (*PCHC* case) | 2015 | 174 million |
| Switzerland | Swisscom ADSL pricing | 2016 | 165 million[b] |
| Switzerland | BMW | 2012 | 140 million |
| Germany | Rails cartel | 2013 | 134.5 million |
| Italy | Vendita Diritti Televisivi Serie A | 2016 | 132.8 million |
| Spain | Audi/Seat/VW dealers | 2015 | 131.4 million |
| Spain | AIO | 2016 | 128.8 million |
| Spain | Insurance cartel | 2009 | 120.7 million |
| Spain | Telefónica móviles, vodafone, orange | 2012 | 119.9 million |
| Italy | Gara Consip – Servizi di pulizia nelle scuole | 2015 | 113.8 million |
| Italy | Wind-Fastweb/Condotte Telecom Italia | 2013 | 103.7 million |
| Spain | Residues | 2015 | 98.2 million |
| Germany | Automotive suppliers | 2015 | 89.7 million |
| Brazil | Ambev | 2003 | 83 million |
| Brazil | Gerdau, Belgo, Barra mansa | 2005 | 81.3 million |
| UK | Phenytoin sodium capsules | 2016 | 80.4 million[c] |
| Switzerland | Sanitary wholesale | 2015 | 71 million |
| Brazil | Airline cartel | 2013 | 69 million |
| Switzerland | Sport im Pay TV | 2016 | 63 million |
| UK | Paroxetine | 2016 | 40.5 million |
| Switzerland | EURIBOR cartel | 2016 | 40 million |
| Hungary | FX loan repayment | 2013 | 31.6 million[d] |
| Austria | Spar Österreich Gruppe | 2015 | 30 million |
| Austria | REWE International | 2013 | 20.8 million |
| Ukraine | Oil product cartel | 2013 | 18.7 million |
| Austria | Speditionssammelladungskonferenz | 2015 | 17.5 million |
| Ukraine | Oil cartel | 2017 | 15.7 million |

(continued)

| Country | Case | Year | Fine (EUR) |
|---|---|---|---|
| Hungary | Hungarian Banking Association and International Training Centre for Bankers Ltd. (BankAdat) | 2016 | 13 million |
| Austria | Spar Österreich Gruppe II, | 2016 | 10.2 million |
| Hungary | Hungarian Concrete Association and others | 2014 | 9.3 million |
| Hungary | Euromedic-Hungaropharma | 2015 | 8 million |
| Ukraine | Cartel in retail | 2015 | 7.7 million |
| Hungary | Axel Springer and others | 2014 | 7.3 million |
| Ukraine | Petrol cartel | 2016 | 7.1 million |
| Belgium | Algist Bruggeman | 2017 | 5.5 million |
| Ukraine | Cartel on the pharmaceutical market | 2017 | 4.1 million |
| Belgium | Industrial batteries | 2016 | 3.9 million |
| Austria | Philips Austria | 2013 | 2,9 million |
| UK | Mercedes-Benz | 2013 | 2.6 million |

[a]The second highest fines totalling EUR 14.5 million in the 2013 *Cement*-case were annulled in 2016 by the Brussels Court of Appeal
[b]Calculated with an exchange rate of 1 CHF = 0.89 €
[c]Calculated with an exchange rate of 0.9 GBP = 1 €
[d]The Competition Authority's decision regarding fines was overruled by the Supreme Court, the new procedure is still ongoing

Top 5 highest fines per jurisdiction imposed on individual undertakings

| Country | Undertaking | Year | Fine (EUR) |
|---|---|---|---|
| Brazil | Votorantim | 2014 | 368.8 million |
| France | Orange | 2015 | 350 million |
| France | Geodis | 2015 | 196.1 million |
| Germany | Südzucker (sugar cartel) | 2014 | 195.5 million |
| France | L'Oréal | 2014 | 189.5 million |
| France | Tarkett | 2017 | 165 million |
| Switzerland | Swisscom ADSL pricing | 2016 | 165 million[a] |
| Germany | Radeberger Gruppe (beer cartel) | 2014 | 160 million |
| Switzerland | BMW | 2012 | 140 million |
| Germany | Zur-Mühlen-Gruppe (sausage cartel)[b] | 2014 | 128.1 million |
| Brazil | Holcim | 2014 | 119.8 million |
| France | Reckitt Benckiser | 2014 | 108.3 million |
| Italy | Telecom | 2013 | 103.7 million |
| Germany | ThyssenKrupp (rails cartel) | 2013 | 103 million |
| Brazil | Itabira | 2014 | 97 million |
| Italy | Novartis AG and Novartis Farma | 2014 | 92 million |
| Italy | F. Hoffmann-La Roche Ltd. and Roche S.p.A | 2014 | 90.5 million |
| Italy | Italcementi | 2017 | 84 million |
| UK | Pfizer | 2016 | 75.8 million |

(continued)

| Country | Undertaking | Year | Fine (EUR) |
|---|---|---|---|
| Brazil | Cimpor | 2014 | 70.2 million |
| Spain | Renfe | 2017 | 65 million |
| Italy | Unilever Italia Mkt. Operations | 2017 | 60.6 million |
| Brazil | InterCement | 2014 | 57 million |
| Ukraine | Tedis Ukraine | 2016 | 40 million |
| Belgium[c] | Carrefour Belgium S.A. | 2015 | 36.4 million |
| Spain | Sca Hygiene | 2016 | 35 million |
| UK | GSK | 2016 | 33.8 million |
| Spain | Caixa Bank | 2018 | 31.8 million |
| Belgium | Etn. Franz Colruyt N.V. | 2015 | 31.6 million |
| Austria | Spar Österreich Gruppe | 2015 | 30 million |
| Ukraine | Ukrtatnafta | 2017 | 30 million |
| Germany | Rieter/Autoneum (automotive suppliers) | 2015 | 29.5 million |
| Belgium | The Procter & Gamble Company, Procter & Gamble International Operations S.A., and Procter & Gamble Services Company N.V. | 2015 | 29.1 million |
| Belgium | Ets. Delhaize Frères et Cie 'Le Lion' (Groupe Delhaize) | 2015 | 24.9 million |
| Spain | Santander | 2018 | 23.9 million |
| Spain | Danone | 2015 | 23.2 million |
| Austria | REWE International | 2013 | 20.8 million |
| Switzerland | Swisscom Sport im Pay TV | 2016 | 63 million |
| Switzerland | JPMorgan (LIBOR cartel) | 2018 | 30 million |
| Switzerland | Barclay's (EURIBOR cartel) | 2016 | 26 million |
| Hungary | OTP Bank (FX loan repayment) | 2013 | 13.1 million |
| Hungary | Hungarian Banking Association (BankAdat) | 2013 | 13 million |
| Austria | Spar Österreich Gruppe II, | 2016 | 10.2 million |
| Austria | Rail Cargo Austria | 2015 | 8.5 million |
| Belgium | L'Oréal Belgilux S.A. | 2015 | 8.0 million |
| Hungary | Erste Bank Hungary (FX loan repayment) | 2013 | 5.8 million |
| UK | GUK-Merck | 2016 | 5.3 million |
| Hungary | Kereskedelmi és Hitelbank | 2013 | 3.3 million |
| Ukraine | Gazprom | 2016 | 3 million |
| Hungary | CIB Bank | 2013 | 2.8 million |
| Ukraine | Poltavaoblenergo | 2014 | 2.6 million |
| Ukraine | Sanofi-Aventis | 2017 | 2 million |

[a]Calculated with an exchange rate of 1 CHF = 0.89 €

[b]The *Bundeskartellamt* could not enforce this fine because the Zur-Mühlen-Gruppe dissolved the two relevant subsidiaries, exploiting the fact that, until 2017, German competition law honoured the principle of limited liability (now infamously known as 'the sausage gap'). Since the 9th Amendment to the German Competition Act, which entered into force on 9 June 2017, fines can also be imposed on parent companies and legal successors

[c]All Belgian fines were imposed in the *PCHC*-case

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# 2 Austria

Florian Schuhmacher and Stefan Holzweber

## 2.1 Introduction

The enforcement of competition law in Austria is multifaceted. Depending on the individual case, an infringement of competition law may lead to administrative and criminal sanctions, as well as civil liability. In order to show the interconnections between the different levels of competition law enforcement, the authors of this report decided to explore the possibilities of competition law enforcement individually for each entity—the company infringing competition law, the parent company and the representatives/employees.

This report is structured as follows: in the first part, the general principles of competition law enforcement in Austria are covered. In the second part, the possibilities of competition enforcement against the company infringing competition law will be explored. The third part deals with parent liability. In the fourth part, it will be retraced how to enforce competition law against individuals. In a concluding assessment, we will put forward some suggestions on how the existing system of the enforcement of competition law in Austria could be improved. We hope that this structure will help the reader of these lines to better grasp the system of competition law enforcement in Austria.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_2

## 2.2 Competition Law Enforcement in Austria

### 2.2.1 Enforcement by Competition Authorities

In Austria, competition law is mainly enforced by four institutions:

– The Federal Competition Authority (*Bundeswettbewerbsbehörde*),
– The Federal Cartel Prosecutor (*Bundeskartellanwalt*),
– The Cartel Court (*Kartellgericht*),
– The Supreme Cartel Court (*Kartellobergericht*).

The Federal Competition Authority, which is independent and not bound by government instructions, is in charge of investigating possible violations of competition law and bringing actions before the Cartel Court. The Federal Competition Authority acts as a party in all procedures before the Cartel Court and the Supreme Cartel Court. Likewise, the Federal Cartel Prosecutor is entitled to bring actions before the Cartel Court; however, he/she is subject to instructions issued by the Federal Minister of Justice. The Cartel Court, which sits in panels of two professional judges and two expert lay judges, has the right to issue binding decisions. Appeals from the Cartel Court are dealt with by the Supreme Cartel Court.

According to Section 29 of the Austrian Cartel Act (*Kartellgesetz*), the Cartel Court may impose fines for an infringement of European or Austrian competition law. There is a double limit for fines: firstly, the Cartel Court may not impose a higher fine than what the Federal Competition Authority or the Federal Cartel Prosecutor applied for. Yet it is in the Cartel Court's discretion to set a lower fine. Secondly, there is a statutory limit for fines: the maximum fine for an infringement may not exceed 10% of the undertaking's worldwide turnover in the entire last business year of the undertaking's involvement in the infringement.[1] For less serious violations (e.g. non-compliance with certain decisions of the Cartel Court), fines may amount to 1% of the worldwide turnover. Unlike cartel fines imposed by the European Commission,[2] the maximum amount of the penalty does not constitute a cap but is rather interpreted as a statutory range of punishment.[3] This means that a cartel fine amounting to 10% of the undertaking's turnover can only be imposed for the most severe violation imaginable (*denkbar schwerste Zuwiderhandlung*).[4] Section 30 of the Austrian Cartel Act provides that the Cartel Court has to consider aggravating factors (e.g. persistent and repeated breaches of competition law or the fact that the undertaking was a leader in or the instigator of the infringement) and

[1]OLG Wien 8 October 2015, 16 Ok 2/15b, *Spar*; OGH 25 March 2009, 16 Ok 4/09, *Industriechemikalien*.

[2]See Regulation Article 23 of the Regulation 1/2003.

[3]OGH 8 October 2015, 16 Ok 2/15b, *Spar*.

[4]H. Brettel and S. Thomas, Unternehmensbußgeld, Bestimmtheitsgrundsatz und Schuldprinzip im novellierten deutschen Kartellrecht, ZWeR 2009(1), pp. 25–64 (at p. 27 et seq).

mitigating factors (e.g. cooperation with the competition authorities or compensation for the losses, which originated from the infringement). The implementation of a genuine compliance system is considered a mitigating factor if it leads to the voluntary termination of the anticompetitive conduct.[5] A compliance system that could not prevent an infringement of competition law, however, does not reduce the cartel fine.[6] In case a company helps to expose a cartel, the Federal Competition Authority may refrain from seeking the imposition of a fine (leniency programme).[7]

According to Section 31 of the Austrian Cartel Act, associations of undertakings may also be subject to cartel fines. However, the Austrian legislator did not include a provision comparable to Article 23 (4) of Regulation 1/2003 to the Austrian Cartel Act. Therefore, members of associations of undertakings may not be held liable for competition law infringements committed by the association.[8]

In a review of published cases before the Cartel Court between June 2007 and May 2018, the fines actually imposed corresponded to 0.2% to 6.7% of the maximum penalty[9]; the maximum penalty is therefore reserved for rather extreme cases. Between 2013 and 2017, the highest cartel fines were imposed in the following cases:

– Spar Österreich Gruppe (EUR 30 million),[10]
– REWE International (EUR 20.8 million),[11]
– Speditionssammelladungskonferenz (EUR 17.5 million),[12]
– Spar Österreich-Gruppe II (EUR 10.21 million),[13]
– Philips Austria GmbH (EUR 2.9 million).[14]

[5]N. Harsdorf and T. Hölzl, Die Bedeutung kartellrechtlicher Compliance-Programme aus Behörden- und Unternehmenssicht, ÖZK 2016, pp. 222–228.

[6]OGH 16 November 2010, 16 Ok 5/10.

[7]See Federal Competition Authority, Handbook on Leniency Programme, available at www.bwb.gv.at/fileadmin/user_upload/Englische_PDFs/Standpoints and Handbooks/Leniency Handbook_final version.pdf. Accessed 6 May 2019.

[8]A. Traugott, section 31 KartG, In: A. Petsche, F. Urlesberger and C. Vartian (eds), KartG, 2nd ed, Manz 2016, at recital 5.

[9]This analysis includes only judgements in which the Cartel Court explicitly mentions this ratio.

[10]OGH 8 October 2015, 16 Ok 2/15b, *Spar*.

[11]KG 13 May 2013, 25 Kt 29/13, *REWE*.

[12]KG 24 March 2015, 24 Kt 7,8/10-266, *Speditionssammelladungskonferenz*.

[13]KG 30 June 2016, 26 Kt 4/16, *Spar-Österreich Gruppe II*.

[14]KG 13 May 2013, 25 Kt 29/13.

### 2.2.2 Criminal Sanctions

In Austria, anticompetitive behaviour in the context of public procurement procedures may lead to criminal sanctions. According to Section 168b of the Austrian Criminal Code (*Strafgesetzbuch*), rendering a tender or carrying out negotiations based on an unlawful agreement with the aim of inducing the contracting body to accept a certain tender is deemed a criminal offence. Similarly, collusive tendering may be qualified as fraud (Sections 146 et seq of the Austrian Criminal Code) if it can be proven that the agreement caused damage to the contracting body.[15] Hence, these forms of anticompetitive behaviour are also dealt with by criminal courts. In the Austrian literature, there is a rising awareness that Sections 168b and 146 et seq of the Austrian Criminal Code have to be enforced independently as Sections 146 et seq protect the property of the contracting body, whereas Section 168b protects the competitive process as such in public procurement procedures.[16] As a prerequisite for the imposition of criminal sanctions, Sections 146 et seq and Section 168b of the Austrian Criminal Code require that the public prosecutor prove that the infringement has been committed intentionally. Sanctions for bid rigging or fraud are heavy: Section 168b offences may be penalised with a maximum imprisonment of three years and Sections 146 et seq with up to ten years, if the damage caused by the collusive tendering exceeds EUR 300,000. According to the established case law, the damage can be determined by comparing the difference between a hypothetical competitive price and the actual price, resulting from the collusive tendering.[17]

What is more, companies can be held liable for all forms of bid rigging committed by their employees or decision-makers under the Austrian Statute on the Responsibility of Legal Entities (*Verbandsverantwortlichkeitsgesetz*). According to Section 4 of this statute, a criminal court may impose fines on a company when its representatives or employees committed an offence. In Austria, fines are imposed in daily rates; the number of rates depends on the severity of the crime. As for bid rigging, the daily rates range from 1 to 85 (when it comes to Section 168b of the Austrian Criminal Code) and 1 to 130 daily rates (for fraud causing a damage exceeding EUR 300,000). The amount to be paid per rate depends on the profitability of the company: it is fixed at the average company profit per day (therefore 1/360 of the company's annual profit). Yet the statutory law stipulates a minimum and a maximum threshold for the amount to be paid per rate: the daily amount may not fall below EUR 50 and may not exceed EUR 10,000.

Another important aspect of criminal liability in the context of bid rigging is the disgorgement of profits, which can be found in Section 20 of the Austrian Criminal Code: Assets or profits acquired through a criminal act might be subject to forfeiture.

[15] K. Kirchbacher, section 168b StGB, In: F. Höpfel and E. Ratz (eds), WK StGB, 2nd ed, Manz 2013, at recital 6.

[16] J. Sagmeister, Strafbarkeit von Preisabsprachen im Vergabeverfahren, ZWF 2017(4), pp. 144–150.

[17] OGH 28 June 2000, 14 Os 107/99.

The additional revenue generated through bid rigging may thus be confiscated. What is more, a criminal conviction of a director may lead to the company being 'blacklisted' at tenders under public procurement law (see Section 68 of the Austrian Procurement Law, *Bundesvergabegesetz*).

In Austria, very few cases of bid rigging are brought to court so far. The Austrian Supreme Court has never dealt with a case of Section 168b of the Austrian Criminal Code. Between 2004 and 2015, only 11 persons have been convicted of bid rigging in the sense of Section 168b.[18] Arguably, cases of collusive tendering that could be qualified as fraud were not significantly more prevalent in the same period.[19]

### 2.2.3 Private Enforcement

The history of private enforcement of competition law in Austria dates back to 1993, when individual competitors were granted a locus standi before the Cartel Court. Ever since, cases of private enforcement of competition law originating in Austria were discussed at the European level—examples include the *Kone* case,[20] dealing with damage claims based on umbrella pricing, or the *Donau Chemie* case,[21] regarding access to file by potential claimants.

What is more, the possibility of bringing an action for damages arising from an infringement of Austrian or European competition law predates the implementation of the EU Damages Actions Directive[22] into Austrian law. It was established that the statutes of Austrian and European competition law may be deemed so-called protective provisions (Section 1311 of the Austrian Civil Code)[23]; therefore, their infringement gives rise to damage claims before Austrian civil courts. An amendment of the Austrian Cartel Act in 2013 included facilitated access to private claims for damages in Section 37a of the Austrian Cartel Act. In April 2017, the EU Damages Actions Directive was incorporated into Austrian law. According to Section 87 (9) of the Austrian Cartel Act, the substantive rules of the new legal framework apply to all damages that occurred after 26 December 2016; the procedural rules apply to cases that were brought to court after 26 December 2016. So far, there are no rulings of the Austrian Supreme Court within the new legal framework of private enforcement; cases may be decided within the old legal framework if the damage occurred before 26 December 2016.

[18] See W. Brugger, Kartellstrafrecht: Keine Ausdehnung des section 168b StGB über das Bundesvergabegesetz hinaus, wbl 2015(7), pp. 366–370 (at p. 366).

[19] However, this cannot be verified in the criminal statistics, since it is not designated how many convictions of fraud could be attributed to collusive tendering.

[20] CJEU, case C-557/12, *Kone*, ECLI:EU:C:2014:1317.

[21] CJEU, case C-536/11, *Donau Chemie*, ECLI:EU:C:2013:366.

[22] Directive 2014/104.

[23] *Schacherreiter*, section 1311 ABGB, In: A. Kletečka and M. Schauer (eds), ABGB-ON[1.05], Manz 2018, at recital 27.

The Austrian legislator opted for a broad scope of application of the provisions of the EU Damages Actions Directive. The national rules apply not only to claims for damages arising from the infringement of European competition law but also to infringements of national competition law. Therefore, the rules of the directive also apply when the anticompetitive behaviour does not affect trade between member states.

In order to get a profound view of the various possibilities of enforcing competition law in Austria, we will—very briefly—depict the system of private enforcement in Austria. On the one hand, emphasis will be placed on national rules of liability for infringing competition law; therefore, cease and desist orders will be left outside the scope of our analysis. On the other hand, we will focus on rules that were not predefined by the European legislator, therefore leaving discretionary powers to the Austrian legislator.

#### 2.2.3.1 Standing

Following the decisions of the European Court of Justice in *Courage*[24] and *Manfredi*,[25] it is established that anyone who has suffered a loss from an infringement of competition law is entitled to claim a recoupment of the damage.

Indirect purchasers (i.e. those further down the distribution chain) can recoup their losses as well. The implementation of the EU Damages Actions Directive introduced a rebuttable presumption that the damage has been passed on to the indirect purchaser if

– the defendant has committed an infringement of competition law;
– the infringement of competition law has resulted in an overcharge for the direct purchaser of the defendant;
– the indirect purchaser has purchased the goods or services that were the object of the infringement of competition law or has purchased goods or services derived from or containing them.

Beyond these rules, claims for damages by indirect purchasers face scepticism from Austrian legal scholarship. It is argued that—following strict standards on causation put forward by the Austrian Supreme Court—only persons that were active in the market, in which the infringement of competition law occurred, may sue.[26] This mirrors the tendency of limiting the standing to sue to direct purchasers from the company involved in the infringement of competition law.[27] However, it remains to be clarified by the European Court of Justice whether this approach is in

[24]CJEU, case C-453/99, *Courage*, ECLI:EU:C:2001:465.

[25]CJEU, case C-295/04, *Manfredi*, ECLI:EU:C:2006:461.

[26]H. Wollmann, section 29 KartG, In: A. Petsche, F. Urlesberger and C. Vartian (eds), KartG, 2nd ed, Manz 2016, at recital 18.

[27]In Kone, the Austrian Courts were of the opinion that damages originating from umbrella prices could not be recouped, however, the CJEU did not follow this approach.

line with the principles of equivalence and effectiveness of competition law enforcement, which is required by the European Court of Justice.[28]

When implementing the EU Damages Directive, the Austrian legislator chose not to introduce class actions. However, 'Austrian style' class actions have recently been brought before Austrian courts. In these cases, consumers assign their claims to a consumer protection agency, which sues the company that supposedly infringed competition law. Yet in the context of private enforcement of competition law, the relevance of this model of class actions remains limited.[29]

#### 2.2.3.2 Damages

Implementing Article 17 of the Directive, Section 37c (2) of the Austrian Cartel Act provides that a cartel between competitors is presumed to have caused loss or damage. Thus, it is up to the defendant to rebut the presumption that he or she was engaged in a horizontal anticompetitive agreement, which may be deemed a hardcore infringement of competition law. However, the claimant still bears the burden of proof for establishing the amount of the loss, which may prove extremely difficult in complex situations.

If the proof of the quantum of the loss is impossible or unreasonably difficult for the claimant to establish, the judge may estimate the damage (Section 273 of the Austrian Code of Civil Procedure [*Zivilverfahrensordnung*]). In practice, court-appointed experts play an important role for the calculation of the damage.

According to Section 37d of the Austrian Cartel Act, full compensation shall be awarded. Full compensation includes actual loss, lost profits and statutory default interest calculated from the date when the loss occurred. Punitive or treble damages are not awarded in Austria. Section 1000 of the Austrian Civil Code (*Allgemeines Bürgerliches Gesetzbuch*) provides that statutory interest rates amount to 4%. Yet claims arising from bilateral business transactions may be subject to an interest amounting to 9.2% plus base interest (Sec 456 of the Austrian Commercial Code [*Unternehmensgesetzbuch*]).

#### 2.2.3.3 Fault

Under Austrian tort law, damages may only be awarded if the infringement of competition law implies fault. There are different degrees of fault, ranging from intent (*Vorsatz*) to gross negligence (*Grobe Fahrlässigkeit*) to minor negligence (*Leichte Fahrlässigkeit*). Yet the degree of fault has no impact on the liability for infringements of competition law since according to Section 37d (1) of the Austrian Cartel Act, the plaintiff can always claim full restitution—including the actual loss of property and loss of profits. Without this provision, it would hinge on the degree of fault, whether full restitution can be granted (in the case of intent or gross negligence) or whether the compensation only covers actual losses of property (in case of minor negligence).

[28] See CJEU, case C-295/04, *Manfredi*, ECLI:EU:C:2006:461, pts 54 ff.

[29] B. Elsner, M. Kos and D. Zandler, Austria, In: I. Gotts (ed), The Private Competition Enforcement Review, 11th ed, Law Business Research 2018, pp. 41–50 (at p. 46).

As general principles of tort law developed for the breach of protective provisions apply in the context of infringements of competition law, the special rules on fault have to be taken into account. At first, it has to be demonstrated that the infringement of competition law implied fault, irrespective of whether the company was aware (or should have been aware) that the conduct is likely to harm consumers or competitors.[30] In a second step, the burden of proof is reversed: the defendant is required to show that he/she acted neither intentionally nor negligently when infringing competition law.

## 2.3 The Company Infringing Competition Law

### 2.3.1 Cartel Fines

According to Section 29 of the Austrian Cartel Act, the Cartel Court can impose fines upon an entrepreneur for infringing Austrian and European competition law. Legal entities and natural persons running a business could be considered an entrepreneur; referring to the Austrian case law, the notion of the 'entrepreneur' used in the Austrian Cartel Act equals the concept of the 'undertaking', which can be found in Articles 101 and 102 TFEU.[31] Thus, for the sake of simplicity, the 'entrepreneur' will be referred to as 'company' in this chapter, even if this does not correspond exactly with the wording of the Austrian Cartel Act.

The Austrian Cartel Act does not include any rules on the liability for cartel fines if the convicted company changes its owner. In the context of M&A, however, numerous provisions in Austrian Corporate Law include a mandatory liability of the purchaser. When it comes to cases of universal succession,[32] the acquirer can be held liable for all liabilities of the target, including cartel fines.[33] In the context of asset deals, Section 1409 of the Austrian Civil Code provides that the purchaser and the seller are jointly and severally liable for any pre-existing liabilities. Unlike other provisions on the succession of liability,[34] this obligation cannot be waived. Section 1409 of the Austrian Civil Code includes liabilities originating from legal obligations,[35] such as the obligation to pay cartel fines. Under Austrian law, it is therefore not possible to avoid cartel fines through a change of ownership.[36] Yet

[30] R. Reischauer, section 1311 ABGB, In: P. Rummel (ed), ABGB, 3rd ed, Manz 2007, at recital 4a.

[31] OGH 17 December 2008, 16 Ok 12/08.

[32] For instance Merger or Demerger.

[33] See section 2 Abs 2 Z 1 UmwG; section 5 UmwG; section 15 SpaltG; section 219 AktG.

[34] Such as, e.g., section 38 UGB.

[35] W. Thöni, section 1409 ABGB, In: A. Fenyves, F. Kerschner and A. Vonkilch (eds), Großkommentar zum ABGB - Klang, 3rd ed, Verlag Österreich 2011, at recital 90.

[36] Which has been the case under the German legal framework. This gap was famously called 'Sausage-Lacuna' (Wurstlücke), since the case in which a company could avoid paying cartel fines through legal succession occurred in the Sausage-industry.

there are two limits to the liability of the purchaser: firstly, the liability is limited by the objective value of the acquired company at the time of signing the contract.[37] Secondly, the purchaser is only liable if he or she knew or ought to have known of the obligation to pay the cartel fine.

With regard to the enforcement of competition law through competition agencies against the alleged company, two questions of attribution arise: first, under which conditions can natural persons, e.g. employees, be attributed to the company? Second, which subsidiaries have to be attributed to the company when determining the turnover for the calculation of the cartel fine?

#### 2.3.1.1 Attribution of Natural Persons

The Austrian Supreme Cartel Court acknowledges that the activities of representatives and employees may be attributed to a company if the following conditions are present[38]:

- The representatives or employees were acting in an official matter. It may be sufficient for the employee to have given the impression of acting in an official matter.[39]
- The representatives or employees complied with instructions. The fact that employees failed to comply with instructions when they engaged in an anticompetitive conduct may, under some circumstances, be exculpating for the company.[40] However, it is not necessary to prove that the directors knew of the anticompetitive conduct or the anticompetitive agreement.[41]

Since cartel fines can be imposed only, if it can be established that the infringement has been committed either intentionally or negligently,[42] personal guilt also has to be attributed to the concerned company. It has been argued that the rules of attributing personal responsibility to companies that are set down in the criminal code should be applied by analogy.[43] Therefore, liability of companies should depend on whether representatives or employees have infringed competition law. For further details of the attribution, see Sect. 2.3.2.1 below.

[37] W. Thöni, section 1409 ABGB, In: A. Fenyves, F. Kerschner and A. Vonkilch (eds), Großkommentar zum ABGB - Klang, 3rd ed, Verlag Österreich 2011, at recital 96.

[38] OGH 8 October 2008, 16 Ok 5/08, at recital 2.3.

[39] OLG Wien 2 January 2017, 26 Kt 4/16.

[40] OLG Wien 6 July 2016, 26 Kt 2/16.

[41] OLG Wien 2 January 2017, 26 Kt 4/16.

[42] See Sec 29 of the Austrian Cartel Act.

[43] N. Gugerbauer, section 29 KartG, In: N. Gugerbauer (ed), KartG und WettbG, 3rd ed, Verlag Österreich 2017, at recital 16.

#### 2.3.1.2 Attribution of Subsidiaries'/Parent Companies' Turnover

Section 22, in connection with Section 7, of the Austrian Cartel Act provides that the aggregate turnover of a company shall be calculated by adding together the consolidated turnovers of the following entities:

– the company concerned;
– those companies in which the company concerned directly holds at least 25% of the capital;
– those companies that directly hold at least 25% of the capital of the concerned company;
– those companies in which a subsidiary of the concerned company holds at least 25% of the capital if the concerned company controls the subsidiary[44];
– those companies in which at least half of the members of the executive board or the supervisory board are the same as in the concerned company;
– those companies that the concerned company can control on other grounds;
– those companies that can control the concerned companies on other grounds.

In the literature, the attribution of subsidiaries to parent companies is criticised for being overly broad.[45] In our view, however, the reach of these rules should not be overestimated: as has been shown above, the fines actually imposed on the companies correspond to a small fraction of the maximum penalty. The approach adopted by the Austrian legislator is furthermore in line with the determination of the relevant turnover for mergers. What is more, it might be argued that these rules reflect the principle that the imposed fine should reflect an undertaking's economic strength.

### 2.3.2 Criminal Sanctions

#### 2.3.2.1 Requirements of Criminal Sanctions

As already mentioned in Sect. 2.2.2 above, a company could face criminal sanctions if it is involved in bid rigging. However, criminal behaviour can only be attributed to the company if it has been committed (i) to the benefit of the company or (ii) in violation of duties of the company (Sec 3 of the Austrian Statute on the Responsibility of Legal Entities).

A criminal behaviour can be deemed beneficial for the company if it actually results or could potentially result in an enrichment of the company or another economic advantage,[46] such as improving the competitive position of the company.[47] In many cases of collusive tendering, it will arguably be possible to establish

[44] OGH 17 December 2008, 16 Ok 12/08, at recital 4.4.

[45] A. Traugott, section 29 KartG, In: A. Petsche, F. Urlesberger and C. Vartian (eds), KartG, 2nd ed, Manz 2016, at recital 16.

[46] OGH 17 November 2015, 14 Os 96/15x.

[47] M. Hilf and F. Zeder, section 3 VbVG, In: F. Höpfel and E. Ratz (eds), WK VbVG, 2nd ed, Manz 2010, at recital 8.

that this conduct was committed to the benefit of the company since bid rigging typically leads to inflated prices for the accepted tender. Besides, a company could be held criminally liable if the collusive tendering occurred in violation of the duties of the company, in particular if no adequate compliance system was put in place.

According to Section 3 of the Austrian Statute on the Responsibility of Legal Entities, there are different degrees of attributability of criminal conduct to companies; it depends on whether the natural persons involved were representatives (decision-makers) of the company or merely employees.

As for criminal behaviour by representatives, the Austrian system of criminal liabilities for legal persons provides for a direct attribution to the company. A company can be held criminally liable if a representative fulfills all elements of the criminal offence, including personal guilt. Yet it is disputed whether the offender has to be identified individually or whether it is sufficient for the involvement of just one of several representatives in the collusive tendering to be established.[48] Section 2 of the Austrian Statute on the Responsibility of Legal Entities includes a broad definition of the notion of representatives: all persons who have a significant influence on the decisions of the company, such as directors, board members or proxy holders may be deemed representatives for the sake of criminal law if the offence was committed in his/her position in the company.[49]

Unlike representatives, employees' misbehaviour cannot be attributed directly to the company. It rather has to be established that an employee committed an offence and that the action (or omission) was caused or facilitated by the fact that the company's representatives did not take appropriate measures to prevent the employee's conduct.[50] Yet it is sufficient to demonstrate that the measures would have impeded the employees from committing the offence. Consequently, it is not necessary to show that adequate measures would have made the employees' conduct impossible.[51] It rather has to be determined in each individual case which appropriate measures the representatives have to take in order to prevent employees from committing an offence; this depends on the size and structure of the undertaking, the branch of trade, the training and reliability of the employees and risks associated with the corporate activities.[52] Thus, a company can avoid criminal liability if it can prove that the representatives established an adequate compliance system, which aims at preventing bid rigging. Section 2 (2) of the Austrian Statute on the Responsibility of Legal Entities provides for a definition of the notion of employee, which is broader than in labour law and, for instance, also includes apprentices.

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[48] M. Hilf and F. Zeder, section 3 VbVG, In: F. Höpfel and E. Ratz (eds), WK VbVG, 2nd ed, Manz 2010, at recital 30.

[49] OGH 17 November 2015, 14 Os 96/15x.

[50] P. Lewisch, Criminal Liability of Companies, Lex Mundi Publication 2008, at p. 5, available at http://www.lexmundi.com/images/lexmundi/PDF/Business_Crimes/Crim_Liability_Colombia.pdf. Accessed 27 August 2018.

[51] Legislative records EBRV 994 BlgNR 22. GP 23.

[52] Legislative records EBRV 994 BlgNR 22. GP 23.

#### 2.3.2.2 Relationship Between Criminal Sanctions and Cartel Fines

As it has been shown, a company faces two different sanctions for bid rigging: cartel fines imposed by the Cartel Court and criminal punishment inflicted by criminal courts. The relationship between these penalties is still highly disputed in Austria.

The bone of contention is the question whether criminal sanctions and cartel fines may be imposed cumulatively. According to the *ne bis in idem* principle, which is enshrined in Article 4 of the 7th protocol of the ECHR and Article 50 of the Charter of Fundamental Rights, *no one shall be liable to be tried or punished again in criminal proceedings for an offence for which he or she has already been finally acquitted or convicted*. Austrian courts, following legal scholarship,[53] acknowledge that cartel fines may be deemed a criminal sanction and therefore fall within the scope of application of the ECHR.[54] It is therefore questionable whether criminal fines for bid rigging and cartel fines for the same conduct may be deemed the same (*idem*). If this was the case, only one of these penalties could be imposed on the company.

The Austrian Constitutional Court clarified that the prosecution of multiple offences arising out of a single criminal act is compatible with the principle of *ne bis in idem* if these offences do not have the same essential elements.[55] Therefore, the essential question is whether the prohibitions of anticompetitive agreements, which are set down in Section 1 of the Austrian Cartel Act and Section 168b/ Sections 146 et seq of the Austrian Criminal Code, have the same essential characteristics. While the Austrian courts have yet to shed light on this question, there is widespread consensus in the Austrian legal scholarship that this is the case.[56] However, it is the view of the authors of this chapter that the solution to the above-mentioned question is less obvious; there is an additional need to distinguish between the different offences that are connected to bid rigging. Fraud (Sec 146 et seq of the Austrian Criminal Code), on the one hand, seems to have rather different elements than the prohibition of anticompetitive agreements since its goal is to protect the property of the contracting body and not the process of competition. If damage to the contracting body can be proven, there is, arguably, room for a cartel fine since the offence of fraud and the prohibition of anticompetitive agreements only overlap slightly.

On the other hand, this issue is more complex when it comes to the prohibition of bid rigging, which is set down in Section 168b of the Austrian Criminal Code. This is

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[53] C. Rosbaud, Das Kartellstrafrecht ist tot! Lang lebe das 'Kartellstrafrecht!' JBl 2003(12), pp. 907 et seq.

[54] OGH 12 September 2007, 16 Ok 4/07; OGH 26 June 2006, 16 Ok 3/06; OGH 27 February 2006, 16 Ok 52/05.

[55] VfGH 2 July 2009, B559/08, at recital 6. In the Literature, this case was criticised for being in conflict with the European Court of Human Rights in ECHR 10 February 2009, 14939/03, *Zolotukhin;* see B. Müller/E. Müller, Ne bis in idem: Geldbußen und Kriminalstrafen für Submissionskartelle, wbl 2014(2), pp. 61–70 (at p. 62).

[56] B. Müller/E. Müller, Ne bis in idem: Geldbußen und Kriminalstrafen für Submissionskartelle, wbl 2014(2), pp. 61–70 (at p. 63); S. Glaser, Unzulässige Bieterabsprachen in exekutiven Versteigerungsverfahren – ein neuer Kartellstraftatbestand im StGB, ecolex 2015(11), pp. 959–962 (at p. 962).

due to the fact that, like the provisions of the Austrian Cartel Act, the aim of this provision is to protect the competitive process. Yet, unlike the general prohibition of anticompetitive agreements, Section 168b of the Austrian Criminal Code only covers collusive tendering—thus agreements that could harm public bodies. It could therefore be argued that public procurement enjoys special legal protection that reaches further than competition without involvement by public bodies. It can be considered a legitimate policy decision of the Austrian legislator to deem the harm of public bodies through anticompetitive agreements an aggravating factor. The mere fact that public bodies were harmed, however, is not explicitly considered when cartel fines are determined. Furthermore, there is no case law on whether harming public bodies increases the cartel fine. Thus, to our mind, there are good reasons to believe that the criminal sanctions associated with bid rigging result from the fact that anticompetitive agreements vis-à-vis public bodies ought to be penalised more severely than anticompetitive agreements between private companies or persons. Therefore, imposing criminal sanctions alongside cartel fines would not constitute an infringement of the *ne-bis-in-idem* principle if the criminal sanction considers the cartel fine and only mirrors the aggravating circumstances of harming public bodies. However, it remains to be clarified by the courts which role the fact that a cartel fine has been imposed plays in the assessment of penalty.

### 2.3.3 Actions for Damages

As mentioned in Sect. 2.2.3 above, it is established that a company infringing competition laws may be held liable by actions for damages. A question meriting a closer analysis is which company can be held liable if multiple companies were involved in the breach of competition law.

According to the principle of joint and several liability, which is well established in Austrian law, a plaintiff can seek full compensation from any of the infringers of competition law. It is then up to the sued company to recover contribution from any other infringer.

However, this principle was modified by the EU Damages Actions Directive. Under the following circumstances, a company infringing competition law is only liable to its own direct and indirect purchasers

– when the company is a small or medium-sized enterprise[57] and its market share in the relevant market is below 5% and unlimited liability would jeopardise its economic viability and cause its assets to lose all their value; however, this privilege does not apply if the company has led the infringement or has coerced other undertakings to participate therein;
– when the company is an immunity recipient; if however, full compensation cannot be obtained from other undertakings, an immunity recipient is jointly and severally liable.

[57] As it is defined in the Commission Recommendation 2003/361.

Section 37e (4) of the Austrian Cartel Act provides that the amount that could be recovered from other infringers is determined in the light of their relative responsibility for the harm. The relative responsibility for the harm is assessed by considering all circumstances, in particular turnover market shares and the role of the infringers. Additionally, the amount of contribution from an immunity recipient to other infringers is limited to the harm that the recipient caused to its own direct or indirect purchasers or providers.

As for consensual settlements, Section 37g of the Austrian Cartel Act stipulates that non-settling infringers are precluded from bringing a claim against the settling infringer.

## 2.4 The Parent Company

### 2.4.1 Cartel Fines

As it has been mentioned above in Sect. 2.3.1.2 above, it may be of importance whether or not the company infringing competition law is held by another (parent) company since the turnover of companies holding at least 25% of the shares of the concerned companies will be considered for the determination of the cartel fine under Austrian competition law. Yet, at the time of writing, it is not clear under which circumstances cartel fines can be directly imposed on the parent company under the Austrian legal framework.

It is established that the legal entity on which the Cartel Court may impose a fine is determined through the application filed by the Federal Competition Authority or the Federal Cartel Prosecutor. If these competition agencies do not file a complaint against the parent company, no cartel fine can be imposed on the parent company. In the same vein, parent companies do not have a *locus standi* in the cartel proceedings if they do not face a complaint by the competition authorities.[58] Consequently, the mere fact that the parent company's turnover is included when determining the cartel fine does not mean that the parent company is a party in the cartel proceedings.

In numerous cases, the Federal Competition Authority or the Federal Cartel Prosecutor additionally filed a complaint against the parent company, which resulted in a fine directed against the parent company.[59] It is, therefore, in the competition agencies' discretion whether or not to initiate proceedings against the parent company. However, a cartel fine may be imposed on a parent company only when certain additional requirements are met.

Generally, it is uncontentious that cartel fines may be imposed on parent companies in case they were directly involved in the infringement of competition law.[60] Proving the direct involvement of the parent company is, however, not

[58] OGH 8 October 2008, 16 Ok 5/08.

[59] OLG Wien 24 October 2008, 29 Kt 132, 133/07; OLG Wien 26 March 2010, 29 Kt 5/09; OGH 8 October 2015, 16 Ok 2/15b.

[60] N. Gugerbauer, section 29 KartG, In: N. Gugerbauer (ed), KartG und WettbG, 3rd ed, Verlag Österreich 2017, at recital 23.

absolutely necessary for holding a parent company liable for infringements by its subsidiaries. Rather, the Austrian Supreme Cartel Court follows the European Court of Justice and acknowledges that the conduct of a subsidiary may be imputed to the parent company if the subsidiary does not make its own decisions regarding its conduct on the market.[61] Thus, it depends on whether the parent company can exercise a decisive influence over the conduct of the subsidiary. In the *Akzo Nobel* decision, the European Court of Justice held that where the parent holds 100% of the shares of a subsidiary, there is a rebuttable presumption that the parent exercises decisive influence over the conduct of the subsidiary.[62] Consequently, if a subsidiary is fully owned by the parent, the claimant is not required to find additional evidence that the parent controlled the subsidiary.[63] This rule has been extended to cases where the company owns almost all of the shares of the subsidiary.[64] In practice, it is arguably very difficult to rebut the presumption of exercising control.[65]

When the aforementioned presumption does not apply, a two-step test has to be applied in order to hold the parent company liable for an infringement by the subsidiary:

– First, it has to be gauged whether the parent company is capable of exercising decisive influence over the conduct of the subsidiary.
– Second, it must be assessed whether the parent company has actually exercised decisive influence over the subsidiary.

According to the established case law, a parent company, which is a majority shareholder of the subsidiary, is able to exercise decisive influence over the subsidiary's conduct.[66] By the same token, 25% of the shares are not sufficient.[67] However, even a minority share may enable a parent company to exercise decisive influence over the subsidiary if the parent company has more rights than normally granted to minority shareholders.[68] What is more, the fact that decisive influence was actually exercised may also be included in the assessment of the first step of the test.[69]

In conclusion, the liability of the parent company for cartel fines imposed by the Cartel Court is in line with fines imposed by the European Commission. However, one important caveat to this finding must be considered: the cases referred to above

[61]OGH 8 October 2015, 16 Ok 2/15b, at recital 5.11.1; see for the cases before the CJEU e.g., CJEU, case 6/72, *Europemballage & Continental Can*, ECLI:EU:C:1973:22, at recital 15.

[62]CJEU, case C-97/08P, *Akzo Nobel*, pt 60.

[63]CJEU, case C-97/08P, *Akzo Nobel*, pt 61.

[64]CJEU, case C-508/11P, *Eni*, pt 47.

[65]R. Whish and D. Bailey, Competition Law, 8th ed., Oxford University Press 2015, at p. 97.

[66]EGC, case T-132/07, *Fuji Electric*, ECLI:EU:T:2011:344, pt 182.

[67]ECFI, case T-141/89, *Tréfileurope*, ECLI:EU:T:1995:62.

[68]EGC, case T-132/07, *Fuji Electric*, ECLI:EU:T:2011:344, pt 183.

[69]EGC, case T-132/07, *Fuji Electric*, ECLI:EU:T:2011:344, pt 184.

were decided in the framework of Article 101 TFEU. Thus, there is a possibility that the Austrian courts embark on a different approach when it comes to cases that have to be decided solely under Austrian competition law. In our view, however, chances are slim that Austrian courts adopt a deviating approach when it comes to Austrian competition law. This arguably is due to the fact that so far Austrian courts have shown a tendency of aligning the case law on the Austrian Cartel Act to European Standards.[70] In our view, this approach is sound in the context of liability since here is no reason why parent companies should be spared from liability for competition law infringements under Austrian law if their responsibility can be established under European competition law.

### 2.4.2 Criminal Sanctions

It has to be highlighted that the Austrian framework for criminal liability of companies focuses on single legal entities rather than corporate groups. In principle, a parent company cannot be penalised for bid rigging of subsidiaries. Yet there may be some exceptions to this principle when the parent company is directly involved in the infringement. This could especially be the case in the following constellations[71]:

– when a representative of a parent company influences employees in the subsidiary to engage in such practices (inciter of a criminal offence);
– when a representative or an employee of the parent company assists the representatives or the employees of the subsidiary (co-perpetrator);
– when the employee or the decision-maker is working for both the company violating competition law and the parent company (direct perpetrator).

In these cases, the decision-maker and the employee may be attributed to the parent company; thus, the parent company may be held liable. Attributing criminal responsibility to the parent company rather than to the subsidiary will result in higher fines if the profit of the parent company exceeds the subsidiary's profit.

### 2.4.3 Action for Damages

In a case from year 2012, the Austrian Supreme Court dealt with the question whether a parent company could be sued when a subsidiary infringed competition law.[72] So far, this has been the only case mentioning civil liability of parent companies; therefore, looking into the details of this judgement is instructive.

[70] See for instance OGH 17 December 2008, 16 Ok 12/08.

[71] See for further details R. Kert, Verbandsverantwortlichkeit im Konzern, In: N. Vavrovsky (ed), Handbuch Konzernhaftung, Linde Verlag 2008, at p. 141 et seq.

[72] OGH 2 August 2012, 4 Ob 46/12m.

In said case, several major Austrian banks founded a joint venture to operate in the market for debit cards. This joint venture acted as an acquirer, meaning that it concluded contracts with merchants and service providers for equipping them with terminals to accept debit cards; soon it gained market dominance. The board of this joint venture included representatives of various Austrian banks that held shares in the joint venture. In 1998, the banks and the joint venture concluded an agreement including the following clause: for every transaction, the banks could levy a transaction fee of at least EUR 0.4; the banks involved agreed not to deal with third-party acquirers on different terms. Yet the average costs that banks bore for their services amounted to EUR 0.08 per transaction. A third-party acquirer sued the banks for restitution, claiming that transaction fees were excessive due to the anticompetitive agreement between the banks.

The Austrian Supreme Court ruled that parent companies (the banks) could be held liable when the subsidiary (the joint venture) infringed competition law. This was due to the fact that the parent companies were actively involved in the agreement. However, the Supreme Court further explained that—for the sake of liability—it was not necessary to prove that the persons acting in the subsidiary on behalf of the parent company were actually representing the parent company.[73] Rather, it was sufficient for the parent company to be aware of the relevant circumstances of the conduct leading to a breach of competition law.[74] According to the Austrian Supreme Court, this is due to the fact that a group of companies should not be able to avoid liability by allocating anticompetitive behaviour to a subsidiary. In the case at hand, the Austrian Supreme Court held that, due to their involvement in the agreement, the parent companies must have been aware of the anticompetitive behaviour, and therefore they could be held liable.

In conclusion, civil liability significantly deviates from the concept of single economic entity originating in European competition law. Referring to the above-mentioned case by the Supreme Court, parent companies may only be held liable for actions for damages if they were somehow involved in the conduct—by act or by omission. Consequently, it is not sufficient to show that the parent company has a decisive influence over the subsidiary. However, it has to be emphasised that this case predates the incorporation of the EU Damage Directive into Austrian law. Furthermore, the decision relied heavily on general civil law principles. Arguably, with the introduction of specific rules for actions for damages originating from a breach of competition law, this approach may be subject to change in the future: the Austrian courts may come to the conclusion that claims based on the Austrian Cartel Act have to be treated differently from the general principles of tort law, mirroring the concept of the single economic entity, which is recognised by the Austrian cartel courts when it comes to cartel fines. To our mind, there are two reasons to opt for a more consistent approach when it comes to the liability of parent companies. First, in our view, there is no persuading reason why parent companies should be held liable

[73] OGH 2 August 2012, 4 Ob 46/12m, at recital 7.6.

[74] OGH 2 August 2012, 4 Ob 46/12m, at recital 7.3.

for cartel fines but not for damages. Attributing liability to the parent company pursues the same goal for both cartel fines and claims for damages: when it comes to the enforcement of competition law, multi-corporate enterprises should not enjoy privileges that single companies do not.[75] Making the liability of parent companies for civil claims contingent on their knowledge may potentially thwart the efforts of establishing such a level playing field. Second, the fact that a parent company exercises decisive influence over the subsidiary (and therefore should be considered a single economic entity according to EU competition law) may serve as an indication that a parent *ought to know* about the subsidiary's conduct. It could hence be argued that parent companies will have to prove that they took all organisational measures that can reasonably be expected—including an efficient compliance system—to avoid the subsidiary acting without the parent company's knowledge to evade liability from actions for damages.

## 2.5 The Management & Employees

### 2.5.1 Cartel Fines

In Austria, cartel fines cannot be imposed on the management or employees of a company infringing competition law.[76] Individual (criminal) sanctions on CEOs/employees could be imposed before the amendment of the Austrian Cartel Act in 2002. In the intent to 'decriminalise' infringements of competition law, individual sanctions for CEOs/employees were as abrogated outside the scope of bid rigging.[77] However, provisions imposing criminal liability for procedural breaches (e.g. destroying documents) are still in place (see, e.g., Section 229 of the Austrian Criminal Code).

### 2.5.2 Criminal Sanctions

As already mentioned in Sect. 2.2.2 above, an individual that was personally involved in collusive tendering may face criminal sanctions, including imprisonment. However, only persons who are entitled to act on behalf of the company or pretend to do so may be qualified as direct perpetrators.[78] Employees supporting the

[75] See OGH 2 August 2012, 4 Ob 46/12m, at recital 7.4.

[76] A. Traugott, section 29 KartG, In: A. Petsche, F. Urlesberger and C. Vartian (eds), KartG, 2nd ed, Manz 2016, at recital 4.

[77] A. Traugott, section 29 KartG, In: A. Petsche, F. Urlesberger and C. Vartian (eds), KartG, 2nd ed, Manz 2016, at recital 2.

[78] F. Zeder, section 168b StGB, In: O. Triffterer, C. Rosbaud and H. Hinterhofer (eds), Salzburger Kommentar zum Strafgesetzbuch, Lexis Nexis 2003, at recital 105.

bid rigging may be deemed co-perpetrators,[79] which may be considered a mitigating factor for the determination of the punishment.[80]

Criminal sanctions against individuals are independent of the criminal liability of companies. According to Section 3 (4) of the Austrian Statute on the Responsibility of Legal Entities, both the individual offender and the company can be convicted for being involved in bid rigging. However, passing the corporate fines on to representatives or employees is prohibited under Section 11 of the Austrian Statute on the Responsibility of Legal Entities. This prohibition applies only for the fines that were imposed as punishments. Hence, a company may recoup costs for litigation from the individual offender.[81]

### 2.5.3 Actions for Damages

With regard to the management's and the employees' liability for damages, two constellations have to be distinguished: First, claims against representatives could be lodged by a party that was harmed by the anticompetitive conduct. Second, claims might be brought forward by the company that was either sued or fined for infringing competition law.

#### 2.5.3.1 Claims by the Company

Under Section 25 of the Act on Private Limited Companies (*Gesetz über Gesellschaften mit beschränkter Haftung*) and Section 84 Act on Public Limited Companies (*Bundesgesetz über Aktiengesellschaften*), directors may have to compensate a company for damages that occurred through an infringement of competition law. A company may therefore recover from its representatives or employees cartel fines, costs for litigation, as well as compensation paid to aggrieved parties.

In Austria, the Supreme Court has not yet dealt with the question whether a company could sue representatives to recoup damages originating from competition law enforcement. In a comparable legal framework, the German *Landesarbeitsgericht Düsseldorf* ruled that cartel fines may not be passed on to a representative that was actively involved in the anticompetitive agreement.[82] This case evoked great scepticism among Austrian Scholars. It is widely acknowledged that the Court's reasoning would not apply to the Austrian legal framework[83] since

[79]F. Zeder, section 168b StGB, In: O. Triffterer, C. Rosbaud and H. Hinterhofer (eds), Salzburger Kommentar zum Strafgesetzbuch, Lexis Nexis 2003, at recital 107.

[80]E. Fabrizy, section 168b StGB, In: F. Höpfel and E. Ratz (eds), WK StGB, 2nd ed, Manz 2013, at recital 117.

[81]Legislative records EBRV 994 BlgNR 22. GP 30.

[82]Landesarbeitsgericht Düsseldorf 20 January 2015, 16 Sa 459/14.

[83]P. Strasser, Die Deckung von Schäden aus Kartellgeldbußen in der D&O Versicherung, VersR 2017 (2), pp. 65–72 (at p. 66); F. Kusznier, Vorteilsanrechnung bei Vorstandshaftung, GesRZ 2017(3), pp. 156–161 (at p. 159); P. Leupold and M. Ramharter, Nützliche Gesetzesverletzungen – Innenhaftung der Geschäftsleiter wegen Verletzung der Legalitätspflicht? GesRZ 2009(5), pp. 253–267 (at p. 261).

the enforcement of competition law in Austria differs from the German approach in one important respect: unlike the Austrian Cartel Act, the German Statute against Anticompetitive Agreements (*Gesetz gegen Wettbewerbsbeschränkungen*) allows for the imposition of cartel fines on representatives of the company infringing competition law; furthermore, fines against companies and against individuals are calculated differently. Hence, recouping cartel fines from the representatives would undermine the German competition agency's decision on who should bear the cartel fine. In the absence of the possibility to fine representatives in Austria (see Sect. 2.5.1), it is widely endorsed that a company should have the option to hold its representatives liable for infringing competition law.[84]

In the context of infringements against competition law, many questions associated with claims for damages by the companies against its representatives are still unresolved. In this chapter, some selected issues will be outlined.

The amount of the damage that might be recouped by the company is one of the most discussed aspects of the liability of representatives or employees. Due to high cartel fines, it is partly considered to be in breach of the corporate duty of loyalty if the entire fine is claimed from the representative. Therefore, the restitution of damages should be limited to an adequate amount.[85] Section 2 of the Employees Liability Act (*Dienstnehmerhaftpflichtgesetz*) reflects this argument: if an employee has negligently harmed his/her employer, the judge has discretion to lower the amount that the employee has to reimburse the employer. Yet, in our view, this provision does not apply to directors.[86]

In Austrian scholarship, there is unanimous consent that the damages that a company can claim from its representatives or its employees ought to be reduced by the benefits it could gain from the anticompetitive conduct.[87] These benefits could be imputable to higher profits and lower production costs, which may result from anticompetitive agreements.[88]

What is more, the appropriate standard to be applied to representatives in cases of violations of the law has been controversially discussed in Austria. While one part of the Austrian scholarship claimed that 'useful violations of law'—meaning violations of law resulting in increased profits—should not lead to liability of representatives,[89] another strand of the literature argues that representatives are required to comply with the principle of legality, meaning that a company may hold their representatives

[84]See P. Leupold and M. Ramharter, Nützliche Gesetzesverletzungen – Innenhaftung der Geschäftsleiter wegen Verletzung der Legalitätspflicht? GesRZ 2009(5), pp. 253–267 (at p. 261).

[85]F. Kusznier, Vorteilsanrechnung bei Vorstandshaftung, GesRZ 2017(3), pp. 156–161 (at p. 159).

[86]See J. Reich-Rohrwig, section 25 GmbHG, In: M. Straube, T. Ratka and A. Rauter (eds), WK GmbHG, Manz 2015, at recital 47 for further details.

[87]See E. Engin-Deniz and P. Kaindl, Haftung von GmbH-Geschäftsführern und AG-Vorstandsmitgliedern bei Wettbewerbs- und Immaterialgüterrechtsverletzungen, ecolex 2012 (11), pp. 947–951.

[88]F. Kusznier, Vorteilsanrechnung bei Vorstandshaftung, GesRZ 2017(3), pp. 156–161 (at p. 159).

[89]See for instance U. Torggler, Von Schnellschüssen, nützlichen Gesetzesverletzungen und spendablen Aktiengesellschaften, wbl 2009(4), pp. 168–176.

liable if they infringed competition law.[90] In the first case, violations of competition law arguably do not give rise to liability of the representatives if it can be proven that the conduct was *ex ante* useful for the company. But even if liability for 'useful violations of law' is accepted, it is conceded that representatives should not be charged in all cases of competition law infringement. If, for instance, the legal situation is unclear, representatives should only be required to undertake a thorough legal analysis (with the help of legal experts)[91]; they may even opt for a strategy, which involves a certain risk of falling foul of competition law, if this risk is outweighed by potential profits.[92] According to this view, representatives should not be blamed if the competition authorities decide differently from what competition law experts expected. However, it will be up to the Austrian courts to decide how far the personal liability of representatives will reach.

#### 2.5.3.2 Claims by the Aggrieved Party

It is established in Austrian case law that the representatives of a company may be held personally liable by an aggrieved party if their individual fault can be proven.[93] As for an infringement of competition law, members of the board of directors may face claims for damages if they either[94]

– were personally involved in the infringement or
– did not take any steps against the infringement, even if they knew (or ought to have known) of the infringement.

If either of those requirements is met, the representatives may be deemed co-perpetrators of the undertaking infringing competition law. Thus, representatives and the company infringing competition law may be held jointly and severally liable. In legal scholarship, it is argued that claims for damages against representatives of the company should be limited to cases where representatives acted intentionally since by principle, liability to third parties should be concentrated on the level of the company.[95] In our view, civil liability of representatives for infringements of

[90] P. Leupold and M. Ramharter, Nützliche Gesetzesverletzungen – Innenhaftung der Geschäftsleiter wegen Verletzung der Legalitätspflicht? GesRZ 2009(5), pp. 253–267.

[91] P. Leupold and M. Ramharter, Nützliche Gesetzesverletzungen – Innenhaftung der Geschäftsleiter wegen Verletzung der Legalitätspflicht? GesRZ 2009(5), pp. 253–267 (at p. 265).

[92] E. Engin-Deniz and P. Kaindl, Haftung von GmbH-Geschäftsführern und AG-Vorstandsmitgliedern bei Wettbewerbs- und Immaterialgüterrechtsverletzungen, ecolex 2012 (11), pp. 947–951.

[93] OGH 30 August 2016, 8 Ob 62/16z.

[94] See OGH 14 February 2012, 5 Ob 39/11p.

[95] S. Kalss, Außenhaftung der Leitungsorgane gegenüber Gesellschaftern und Dritten, In: E. Artmann, F. Rüffler and U. Torggler (eds), Die Organhaftung zwischen Ermessensentscheidung und Haftungsgefälle, Manz 2013, pp. 73–98; see also H. Koppensteiner, Zur Außenhaftung von Geschäftsführern und Vorständen, GES 2015(8), pp. 379–391, who generally questions the concept of civil liability of directors for competition law infringements.

competition law is limited by the fact that the Austrian Cartel Act applies only to the entrepreneur instead of the decision-maker, whereas the European competition rules correspondingly apply only to undertakings.

## 2.6 Assessment

The Austrian system of competition law enforcement is deeply rooted in an interplay between public and private enforcement. While cartel fines can only be imposed on undertakings, they may be recouped from directors and in extraordinary instances from employees in a claim for damages. However, in the context of bid rigging, individuals may face criminal sanctions as well.

In an overall assessment, the authors of this report consider the Austrian system of competition law enforcement to be sufficiently efficient when it comes to breaches of competition law. While there are numerous minor inconsistencies in the enforcement system (e.g. the missing liability for the members of an association of companies; see Sect. 2.2.1 above), we would like to highlight two specific issues that are of primordial importance for the Austrian system of competition law enforcement.

As it has been shown, there are two different theories of whether parent companies should be liable for subsidiaries infringing competition law. When it comes to liability for cartel fines, it is clearly established that a parent company is liable in cases where its subsidiary infringing competition law cannot decide independently upon its own conduct on the market. Yet when it comes to civil liability, parent companies may be liable only if they were directly involved in the anticompetitive conduct. To our mind, there is no compelling reason why it should be possible to impose fines on the parent company when in the same case a parent company cannot be held liable for damages resulting from the same conduct. Why should an aggrieved party be compelled to lodge a claim against a (possibly bankrupt) subsidiary while competition authorities may resort to the deep pockets of the parent company? In our view, the same standards of liability should prevail—irrespective of whether competition law is enforced by public bodies or private entities. In order to establish a level playing field, the *Akzo Nobel* presumption should therefore be applied to private enforcement as well.

A second issue meriting closer analysis is the intersection between competition law and criminal law. As has been described, bid rigging may fall within the ambit of the Austrian Cartel Act and the Austrian Criminal Code. However, the institutions enforcing competition law and criminal law are different: while competition law is enforced by the competition authorities (see Sect. 2.2 above), the public prosecutor has to bring in an action before a criminal court. First, the fundamental question may be raised whether (more specialised) competition authorities would be better equipped to deal with bid rigging than criminal courts. Arguably, it would suffice to include the fact that public bodies are harmed from bid rigging in the list of aggravating factors enshrined in Section 30 of the Austrian Cartel Act. Second, the dualism of enforcement by competition authorities and public prosecutors raises numerous challenges, especially when it comes to leniency programmes: when a company applies for leniency in the context of bid rigging, this may put its employees at risk of criminal prosecution. Even though a certain level of harmonisation exists (see Section 209b of the Austrian Code of Criminal Procedure), in our view this risk should be further addressed by the Austrian legislator in order to extend the leniency policy towards the context of bid rigging.

**Acknowledgements** The authors would like to thank Patrick Nutz, LL.M., and Mag. Arno Scharf for their valuable assistance.

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# Belgium

# 3

Isabel Rooms, Gert-Jan Hendrix, and Philippe Jonckheere

## 3.1 Stock Taking

### 3.1.1 Administrative Enforcement of Competition Law

Book IV 'Protection of Competition' of the Code of Economic Law (*Code de droit économique/Wetboek van Economisch Recht*, hereafter CEL) contains the relevant national statutory competition provisions.[1]

Article IV.1 section 1 CEL prohibits agreements between undertakings, decisions by associations of undertakings and concerted practices the aim or effect of which is to significantly prevent, restrict or distort competition in the relevant Belgian market or in a substantial part thereof. Article IV.2 CEL prohibits any abuse by one or more undertakings of a dominant position within the Belgian market or in a substantial part of it. Article IV.1 and IV.2 are thus substantially similar to Articles 101 section 1 and 102 of the TFEU.

In addition to the prohibition under Article IV.1 section 1 CEL, which is aimed at undertakings, Article IV.1 section 4 CEL further prohibits individuals from negotiating on behalf of an undertaking or an association of undertakings agreements with competitors that (a) fix the selling prices of goods or services to

[1] A limited number of definitions is contained in Book I CEL. Criminal sanctions for procedural breaches, such as the improper use or disclosure of information obtained in the course of antitrust proceedings, or breach of confidentiality by members of the BCA, are contained in Article XV.80 CEL.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_3

third parties, (b) limit the production or sale of goods or services or (c) allocate markets.

For the sake of completeness, Article IV.10 section 5 CEL prohibits the implementation of a merger without the prior approval of the Belgian Competition Authority (so-called gun jumping).

The Belgian Competition Authority (*Autorité belge de la Concurrence/Belgische mededingingsautoriteit*, hereafter BCA) is the administrative authority that enforces the Belgian competition rules.[2] The BCA is the successor authority to the Belgian Competition Council,[3] which had been competent as an administrative court until September 2013. The BCA is the only institution that conducts investigations and imposes administrative sanctions for breaches of competition rules.[4] The BCA is thus the sole institution responsible for public enforcement of competition rules.

The BCA has issued guidance for stakeholders, of which the 2013 Inspection Guidelines,[5] the 2014 Fining Guidelines[6] and the 2016 Leniency Guidelines[7] are the most relevant for the purpose of the imposition of sanctions for breaches of competition law.[8]

### 3.1.2 Private Enforcement of Competition Law

The Belgian courts have the power to enforce Articles IV.1 and IV.2 CEL (as well as Articles 101 and 102 TFEU) in private actions, such as in actions for damages or in actions for an injunction (private enforcement).

Private enforcement claims can be based on various legal grounds. Pursuant to Articles 101 section 2 TFEU and IV.1 section 2 CEL, any interested person can claim the nullification of an agreement between undertakings or a decision by an association of undertakings the aim or effect of which is to significantly prevent, restrict or distort competition. The nullity of such agreement or decision can be claimed in principal order or be raised as a ground of defence against a claim for enforcement of the relevant agreement or decision.

[2]Similarly, to the national competition authorities of other EU Member States, the BCA is empowered by Regulation 1/2003 to apply Articles 101 and 102 TFEU.

[3]Cass. 20 November 2014, Arr. Cass 2014.

[4]Competition rules defined as the prohibitions included in Articles 101 and 102 TFEU and Book IV CEL. The prohibition of unfair competition or unfair market practices is enforced by other authorities including the Economic Inspection.

[5]Belgian State Gazette (*Moniteur Belge/Belgisch Staatsblad*), 24 December 2013, p. 102122.

[6]Belgian State Gazette (*Moniteur Belge/Belgisch Staatsblad*), 10 September 2014, p. 71456.

[7]Belgian State Gazette (*Moniteur Belge/Belgisch Staatsblad*), 22 March 2016, p. 19796.

[8]The BCA can also impose sanctions in the frame of merger control rules. Undertakings which fail to notify a notifiable concentration to the BCA or implement a notifiable concentration prior to clearance by the BCA, can have sanctions imposed up to 1% of their annual turnover on the Belgian market and from export sales from Belgium. The sanction regime under merger control rules is not further discussed in the report.

Pursuant to Article 1382 of the Civil Code, any victim of a competition law infringement can claim compensation for the harm suffered. Title II of Book XVII CEL enables certain representative associations to lodge collective actions against one or several undertakings in order to claim compensation for a class of consumers or SMEs. The implementation of Directive 2014/104 has led to the introduction of specific procedural rules for damages actions for breach of competition law, which are contained in Book XVII Chapter 3 CEL.

Belgian law relies on the principle that damages serve to place the victim in the situation he/she would have found himself in, but for the unlawful act. Hence, damages principally serve a reparatory role, in that they aim to compensate the victim for the loss he/she suffered due to the unlawful act (i.e. the monetary value of the differences in the situation that he/she finds himself in after the unlawful act and the situation he/she would have found himself in had the unlawful act not occurred[9]). The victim can therefore, as a matter of principle, not be better off by receiving damages, meaning that punitive damages are not possible under Belgian law.

Title I of Book XVII CEL also enables the interested persons, certain public authorities and certain associations to lodge cease-and-desist proceedings to obtain a judicial order to cease competition law infringements. In case of urgency, a judicial order to suspend a competition law infringement can also be claimed in summary proceedings pursuant to Article 584 of the Judicial Code, including in case of merger gun jumping.

### 3.1.3 Criminal Enforcement of Competition Law

#### 3.1.3.1 General Framework of Enforcement of Criminal Law Against Legal Entities

Since the Act of 4 May 1999, legal entities can generally be held criminally liable for all criminal offences, with the exception of certain governmental entities. This criminal liability applies regardless of whether the entity is incorporated under Belgian law.

Criminal sanctions can be imposed on legal entities for all crimes that can both be materially and subjectively imputed to a legal entity.

A crime may be materially imputed to a legal entity, i.e. the legal entity may be deemed to have committed the crime. Moreover, the legal entity can only be criminally sanctioned if that criminal offence (i) has an intrinsic link to the attainment of the legal entity's corporate purpose, (ii) has been committed in its interest or (iii) has been committed for the legal entity's account, as should appear from the facts (Article 5 section 1 of the Criminal Code).

Whether a crime may subjectively be imputed to the legal entity, i.e. whether or not that entity had the necessary criminal intent to commit a crime, will require a

[9]See X. Taton, Quelle méthode pour l'évaluation concrète du dommage économique ? L'exemple des infractions au droit de la concurrence, R.D.C., 2013/10, pp. 1050 ff.

fact-driven assessment. The court will have to determine whether the crime is the direct result of either an intentional decision taken by one of the entity's corporate bodies (for criminal offences that require intent) or the negligence of one of those bodies (for criminal offences that require negligence). The negligence of a corporate body should, however, concern a systemic negligence (e.g. poor corporate organisation) rather than a specific decision that can be attributed to one or more natural persons.[10]

Furthermore, when a legal entity is held criminally liable solely due to an act committed by an identifiable natural person, sanctions can only be imposed on one of them, namely the one who committed the gravest unlawfulness. There is, however, an exception to this rule—if the natural person acted knowingly and willingly, sanctions may be imposed on both the natural person and the legal entity (Article 5 section 2 of the Criminal Code).

This latest rule, Article 5 section 2 of the Criminal Code, will soon disappear. On 5 July 2018, the Belgian Parliament indeed voted a bill that abrogates this paragraph and that states explicitly that the criminal liability of a legal entity does not exclude the criminal liability of the natural persons who participated in the infringement (Article 5 new section 3 of the Criminal Code). Criminal courts will therefore generally be entitled to impose criminal sanctions on both legal entities and natural persons. This new rule will enter into force 10 days after its publication in the Belgian State Gazette.

#### 3.1.3.2 No General Criminal Enforcement of Competition Rules

Belgian competition law imposes no general criminal sanctions for substantive infringements of competition law *sensu strictu*. However, Belgian criminal law does contain several provisions whose scope and purpose overlap with that of competition law. For instance, Article 314 of the Criminal Code makes it a criminal offence to form a cartel for a public tender. Similarly, until recently, the now-abolished Economic Regulation and Prices Act of 22 January 1945 made it a criminal offence to sell products at 'abnormal' prices. However, that is not to say that the debate on whether criminal sanctions should be adopted for competition infringements has not been thoroughly held in Belgium. To the contrary, that debate has been raging for well over a decade and recently came to a head when legislation was introduced in Parliament that aimed to establish personal liability for directors, managers and ordinary employees for their participation in cartel infringements. The impetus for that legislative change was an OECD economic report on Belgium, which stated that '[d]eterrence would be enhanced by introducing criminal sanctions such as prison sentences for hard-core cartel infringements'.[11]

Nonetheless, Parliament decided to enact administrative sanctions (i.e. administrative fines) rather than criminal sanctions since it feared that criminal sanctions could cause unwanted interference with leniency programmes and

[10] P. Waeterinckx, F. Deruyck, F. Van Volsem, Strafrecht in de onderneming, Antwerpen, Intersentia 2016, p. 196.

[11] OECD, Economic Surveys: Belgium, OECD Publishing, 2009, p. 118.

administrative proceedings before the BCA. As a result, Parliament also refrained from including director disqualification as a potential sanction since it believed that sanction 'could be considered a criminal sanction in light of the ECHR, the imposition of which, contrary to administrative sanctions, requires that all guarantees present in criminal proceedings would need to be abided by'. Furthermore, no sanctions were enacted for abuse of dominant position, which the legislator believed to be 'too vague a notion' to be used as a description of a crime or an administrative offence.

Administrative fines by the BCA are, however, considered by the Brussels' Court of Appeal as of a 'criminal nature' in the sense of the European Convention on Human Rights, and procedural guarantees for a fair trial, such as the principle of *non bis in idem*, apply to competition proceedings.[12]

#### 3.1.3.3 Broad Range of Sanctions Applicable in Other Business-Related Breaches of Law

Criminal law provides criminal courts with a broad range of sanctions to impose on legal entities having infringed other business-related rules. Generally, all crimes carry fines, which may be imposed on both individuals and companies as such, and/or prison sentences, which can only be imposed on individuals. The Belgian Criminal Code and specific criminal legislation generally determine a range with minimum and maximum fines and prison sentences, which the courts cannot exceed. Within this legal range, courts are free to set a penalty.

There are no reparatory sanctions under Belgian law. Rather, parties injured by a crime may lodge a civil claim for damages either with the civil courts or with the criminal courts. If they lodge their claim with the criminal court, that court will rule on the claim and award damages together with its criminal judgement.

Additionally, for certain business crimes, courts can also impose more specific business-related sanctions.

For instance, Royal Decree no. 22 of 24 October 1934 allows the court to disqualify a person from acting as a director, commercial intermediary or company auditor for a period of 3 to 10 years in case he/she commits crimes such a forgery, fraud, bribery or embezzlement. Similarly, Article XX.229 CEL allows the court to impose a similar disqualification on the director of a bankrupted company who committed serious errors that contributed to the company's bankruptcy.

Furthermore, Article 67 section 1 of the Public Tenders Act of 17 June 2016 (which is largely a transposition of European directives on public tenders) provides that companies that have been convicted of such crimes as bribery, fraud or money laundering are disqualified from participating in public tenders, unless they are able to provide proof of their trustworthiness and the fact that they have compensated the victims of their previous crimes. The same prohibition also applies when not the company but a member of its board of directors was convicted of those crimes. The

[12] Brussels Court of Appeal, 10 November 2016.

disqualification from public tenders is thus not a criminal sanction imposed by the criminal court; rather, it is the administrative consequence of a criminal conviction.

Courts must, for some crimes, also order that the objects or funds with which the crime was committed or that were obtained because of the crime are confiscated. For instance, Article 505 section 5 of the Criminal Code states that money that has been laundered must be confiscated.

Finally, the courts also have a specific set of sanctions at their disposal that they can only impose on legal entities. Courts may, for instance, together with the criminal conviction of a legal entity, order the dissolution of that legal entity or the closure of one of its branches or prohibit it from engaging in certain activities that are part of its corporate purpose.

## 3.2 Sanctions

### 3.2.1 Deterrence as the Main Goal of Competition Law Sanctions

The goals of imposing competition law sanctions are similar to the objectives pursued at the European level. In the preparatory works to Book IV CEL, it was clear that the new legislation was driven by a governmental policy to pursue an ambitious competition policy through a 'deterrent framework of sanctions'. On its website, the BCA indicates that 'the formal procedures for pursuing infringements constitute the backbone of the BCA's deterrent mechanism'.[13]

The BCA further publishes each year a notice on its enforcement priorities, which detail both the types of cases the BCA will pursue and the economic sectors in which the BCA will concentrate its enforcement practice.

The primary goal of competition sanctions is deterrence. This is demonstrated by the BCA's ability to increase the amount of the fine to ensure proper deterrence in cases where an undertaking has 'a particularly large turnover beyond the sales of goods or services to which the infringement relates'.[14]

In line with the EU's policy, there is also a certain aspect of retribution as the BCA 'will also take into account the need to increase the fine in order to exceed the amount of gains improperly made as a result of the infringement where it is possible to estimate that amount'.[15]

[13]https://www.belgiancompetition.be/en/about-belgian-competition-authority.

[14]Recital 30 of the Guidelines of 1 September 2006 on the method of setting fines imposed pursuant to Article 23(2)(a) of Regulation 1/2003, OJ C 210, p. 2–5 (the 'EU Fining Guidelines'), applied by the BCA according to its 2014 Fining Guidelines.

[15]Recital 31 of the EU Fining Guidelines, applied the BCA according to the 2014 Fining Guidelines.

### 3.2.2 Determination/Calculation of Sanctions

#### 3.2.2.1 Sanctions for Undertakings Under Competition Rules

The sanctions imposed under Belgian competition law rules are monetary. According to Article IV.70 section 1 CEL, the BCA can impose on an undertaking or an association of undertakings a fine of up to 10% of the turnover achieved from sales on the Belgian market or from export sales from Belgium in the last financial year. The same sanctions apply in case of merger gun jumping, pursuant to Article IV.72 CEL.

Under the 2014 Fining Guidelines, the BCA will follow closely the method set out by the European Commission (the 'Commission') in the EU Fining Guidelines. It will thus calculate a basic amount of the fine (based on the value of sales affected and duration) and subsequently apply corrections for aggravating and mitigating circumstances, as well as for deterrence.

The public version of the BCA's fining decisions will provide further guidance as to the BCA's application of these guidelines. It will clarify which aggravating and mitigating circumstances can be taken into account.

A good example of the importance of such decisions relates to the impact of a compliance programme on the sanctions imposed on the undertaking. The BCA has not enacted formal guidance on this point, and depending on the specifics of the case, the BCA could take the view that the existence of a genuine compliance programme constitutes either an aggravating or a mitigating circumstance.

While the current authority has not yet ruled on this point, it should be noted that the Belgian Competition Council (the BCA's predecessor) refused in the *Steel-Plate Radiators* case to consider as a mitigating factor the existence of a compliance programme for one of the undertakings concerned. On the basis of the facts of the case, the Council was, however, not convinced that the compliance programme had been effective in preventing anticompetitive agreements to be made.[16]

Similar to the method applied by the Commission, the BCA can increase the basic amount of the fine by 100% in case of recidivism. Recidivism is defined under the 2014 Fining Guidelines as the continuation of repetition of the same or similar infringement in a Member State of the European Union, which has been subject to an infringement decision by the Commission or by the national competition authorities of France, Germany, Luxembourg, the Netherlands or the United Kingdom.[17]

Pursuant to Article IV.71 section 1 CEL, the BCA can also impose sanctions on individuals or undertakings for procedural infringements ranging from giving misleading, inaccurate or incomplete information to obstruction of the investigation. A fine of up to 1% of the Belgian turnover can be imposed on a company. Since the

[16] Decision of the Belgian Competition Council. 20 May 2010 MEDE-I/O-04/0063 and MEDE-I/O-06/0032, Staalplaatradiatoren para. 220.

[17] Notably, the 2014 Fining Guidelines appear to exclude a prior infringement decision by the BCA (or the Competition Council) from the list of authorities relevant to define recidivism, but this likely an oversight.

fine is based on an undertaking's turnover, it is unclear whether such a fine can be imposed on individuals even though legislation refers to undertakings and individuals.

There are no reparatory, custodial or disqualification sanctions under Belgian competition rules. That said, individuals and corporate entities that have been harmed by a competition law infringement can sue for damages.

#### 3.2.2.2 Sanctions for Individuals Under Competition Rules

Article IV.1 section 4 CEL now makes it unlawful for a natural person to—in the name of and for the account of a company or professional association—negotiate or make agreements with competitors on (i) setting prices for the sale of products and services to third parties, (ii) limiting production or the sale of products or services and (iii) allocating markets. Article IV.70 provides for an administrative fine for breaches of that provision of between EUR 100 and 10,000.

An individual can only be held to have infringed Article IV.1 section 4 CEL if the relevant undertaking has been held to infringe Article IV.1 section 1.[18] In other words, the finding of infringement against the individual is an *accessorium* to the finding of infringement against the undertaking.

Individuals can apply for immunity, regardless of whether or not the undertaking concerned has applied for leniency and regardless of the undertaking's rank among other leniency applicants. This, however, requires a positive action from the said employee, who shall submit either (i) his application for immunity, together with the leniency application of the undertaking concerned or (ii) an application for immunity individually but simultaneously with, and with express reference to, the undertaking's leniency application or (iii) on an individual basis, regardless of whether the relevant undertaking has applied for leniency. If successful, individuals are always granted full immunity from fines, regardless of their order/rank.[19]

Conversely, undertakings can, under the leniency programme, avoid the imposition of a sanction while still being formally held to have infringed Article IV.1 CEL. In such circumstances, it would technically be possible for the BCA to impose an administrative fine on an employee of this undertaking (i.e. even if no sanction is imposed on the undertaking that successfully applied for leniency). In practice, the BCA is likely to grant immunity to the employees of a successful leniency applicant.

It should be noted that the fact that an employee obtained immunity of fines for a certain behaviour, while the relevant undertaking did not, may influence the fine imposed on the undertaking in certain circumstances. In the *Public Procurement* case,[20] the BCA granted a supplementary reduction of the fine to an undertaking that had not been able to apply for leniency because one of its employees had already provided on an individual basis the relevant information to the BCA to obtain immunity.

[18] See section 21 of the 2016 Leniency Guidelines.

[19] See section 24 of the 2016 Leniency Guidelines.

[20] Decision of the Belgian Competition Authority. 2 May 2017 MEDE-I/O-13/0031.

There is no specific mechanism to impose individual sanctions in case of recidivism. Recidivism is likely to constitute a factor in the assessment of the BCA of the determination of the individual fine, which can range from EUR 100 to 10,000.

To date, the BCA has not imposed individual sanctions. While there is no precedent in relation to this, it is likely that the BCA would impose such sanctions in the same procedure and would adopt one decision targeting all undertakings and individuals concerned.

In such a scenario, the legal position of the individuals would depend on the nature of the successful legal challenge. If the court annuls the decision of the BCA in its entirety, this would annul the decision in relation to all the undertakings and individuals to whom the decision was addressed. Conversely, if the court only partially annuls the decision (e.g. in relation to the calculation of the fine of an undertaking not related to the individual), this would leave the legal position of the individual unchanged.

#### 3.2.2.3 Criminal Liability for Procedural Breaches of Competition Rules

Pursuant to Article IV.71 CEL, obstructing an investigation of the BCA by providing incorrect, distorted or incomplete information or by not providing the information within the deadline set by the authority may result in administrative fines of up to 1% of the turnover, regardless of whether it is done intentionally. Furthermore, the same administrative fine may be imposed for 'impeding or obstructing' the BCA's investigation. This could include the destruction of evidence. The text of the law extends this sanction to 'persons' without being clear as to how the fine would be calculated in the absence of a turnover attributable to such person.

Upon transposition of the Damages Directive, the legislator adopted a new Article XVII.81 in the CEL. That article now allows the courts to impose on parties to a private enforcement action, as well as third parties, an administrative fine of between EUR 1000 and 10,000,000, as well as damages, if they refuse to produce the evidence requested, destroy relevant evidence or fail to protect the confidentiality of documents produced. While the courts hence have a large discretion in setting the fine, Article XVII.81 goes on to state that fines should be set at a level that is 'effective, dissuasive, and equitable'. Furthermore, when one of the parties has engaged in a prohibited behaviour, courts are allowed to consider that behaviour as evidence against that party.

#### 3.2.2.4 Sanctions Under General Criminal Law

Belgian criminal law generally provides for minimum and maximum fines and prison sentences that may be imposed, which limits the level of discretion of the court. Within those limits, however, the court is free to determine the severity of the punishment, considering its assessment of the severity of the facts and the personality of the perpetrator. However, these limits on the discretion of the courts may be altered in some circumstances. First, if attenuating circumstances are present, lighter punishments than the minimum punishment may be imposed. Similarly, aggravating circumstances may lead to higher punishments. Second, repeat offenders may receive heavier punishments than the maximum punishment.

Criminal sanctions imposed under Belgian law are generally personal and are not affected by the criminal sanctions imposed on other entities or individuals. As such, the imposition of a criminal sanction on an employee does not affect the sanction that will be imposed on the employer. However, there is one major exception to this rule, i.e. when a legal entity is held criminally liable solely due to an act committed by an identifiable natural person. In that case, criminal sanctions can only be imposed on one of them, namely the one who committed the gravest unlawfulness, unless the natural person acted knowingly and willingly (in which case both the employee and the legal entity can be sanctioned). This exception will disappear 10 days after the publication of the bill voted on 5 July in the Belgian State Gazette.

### 3.2.3 Non Bis In Idem

While Belgian law does adhere to the principle of *non bis in idem*, there is no prohibition against a legislation setting both criminal and administrative fines on a perpetrator. As such, the Belgian Court of Cassation held that ‘the Belgian government can set different sanctions on the same infraction, one subject to the national criminal regime and the other to the system of administrative sanctions, even if that administrative sanction is criminal in nature in the sense of Article 6 of the European Convention on Human Rights’.[21] Hence, the Belgian legislator may still provide for criminal sanctions even if another legislation has already set administrative sanctions.

However, administrative authorities and criminal courts are subject to the general principle of *non bis in idem*, according to which a person cannot be prosecuted a second time for the same facts as the ones for which this person has already been sanctioned or acquitted by a final decision. In the specific context of competition fines, the Brussels Court of Appeal has ruled that a fine imposed on the postal operator bpost by the Belgian Competition Council,[22] after the postal regulation authority (the Belgian Institute for Postal Services and Telecommunications) imposed a fine for the same conduct, infringed the principle of *non bis in idem*.[23]

The court held that both the fine of the postal regulation authority and the fine by the Belgian Competition Council were of a ‘criminal nature’ in the context of applying the right to a fair trial. Given that both fines concerned the same perpetrator, the same conduct, the same undertakings concerned and the same relevant markets, the Court of Appeal annulled the fining decision of the Belgian Competition Council. This judgement is currently under appeal before the Belgian Supreme Court.

[21] Belgian Supreme Court, 5 February 1999, Arr.Cass. 1999, p. 142 and p. 155.

[22] The Belgian Competition Council is the predecessor competition authority.

[23] Brussels Court of Appeal, 10 November 2016.

## 3.3 Parent Liability

### 3.3.1 Liability of the Parent Company for the Wrongdoing of Its Subsidiary

#### 3.3.1.1 Liability for Administrative Fines

The BCA accepts a concept of parental liability similar to that of the Commission and the European Court of Justice. The Belgian Competition Council's previous guidelines on the calculation and imposition of fines had already stated that 'a parent company may be held liable for the behaviour of its subsidiary when that subsidiary does not autonomously determine its own behaviour in the market'.

The BCA's 2014 Fining Guidelines merely refer to the EU Notice on the method of setting fines, which itself does not lay down any rules on parental liability. In practice, the BCA has relied on the *Akzo* doctrine[24] set out at the EU level when imposing a fine on a parent company. The BCA and its predecessor authority, the Belgian Competition Council, have, however, not always adopted a consistent practice.

In the *Steel-Plate Radiators*, *Flour* and the *PCHC* cartel cases, the parent companies of some of the companies involved were held liable, while other parent companies were not. As noted by Wijckmans and Wijckmans,[25] a few factors seem to have influenced this differential treatment. In the *Flour* case, the fact that a parent company was not directly but still closely involved in the infringement may have tipped the scales in favour of holding the parent company liable.[26] The fact that parent companies have submitted the Belgian leniency application in the *Flour* and *Industrial Batteries* cases is also likely to have increased the chances that the parent companies were held liable.[27]

In an older cartel case against Bayer AG, Ferro (Belgium) SPRL, Lonza S.p.A., and Solutia Europea S.A., a decision of the Belgian Competition Council of 4 April 2008 refused to impose fines on the parent companies of the cartel members, instead holding that the latter were sufficiently independent from their respective parent companies for them to be the sole responsible parties for the infringements. A parent company would therefore appear to escape parental liability when 'sufficient

[24]The European Court of Justice held that 'the conduct of a subsidiary may be imputed to the parent company in particular where, although having a separate legal personality, that subsidiary does not decide independently upon its own conduct on the market, but carries out, in all material respects, the instructions given to it by the parent company' (CJEU, case C-97/08, Akzo Nobel v Commission, ECLI:EU:C:2009:536, pt 58).

[25]F. Wijckmans and E. Wijckmans, Tijdschrift voor Belgische Mededinging/ Revue de la Concurrence Belge 2016, p. 240.

[26]Decision of the Belgian Competition Council. 28 February 2013 MEDE-I/O-08/, Mededingingsbeperkende praktijken op de markt voor levering en verkoop van meel in Belgie para. 174.

[27]The parent companies that were subject to a fine were: Meneba, Dossche, Ceres, and Brabomills.

independence' exists, as opposed to the 'complete independence' test employed at the European level.

However, in the two most recent infringement cases, *Algist Bruggeman* and *Public Procurement*, the BCA appears to have taken a more consistent approach and has imposed fines on the parent companies of all undertakings involved, even if the case did not contain any evidence demonstrating that the parent companies were directly involved or aware of the infringement.[28]

#### 3.3.1.2 Liability for Civil Damages

To transpose Damages Directive 2014/104 into Belgian law, Parliament has adopted Title 3 in Book XVII CEL, on 'actions for damages for infringements of competition law'. That title does not contain any specific provision on parental liability but merely refers, in its Article XVII.72, to 'the general principles of tort law'.

Under Belgian law, any competition law infringement, like any violation of a legal or regulatory provision, is a tort giving rise to liability, provided that the relevant provision obliges or prohibits a specific behaviour and the breach of such provision is imputable to the defendant.

When the competition law infringement is imputable to both the parent company and its subsidiary under the specific rules of competition law, such infringement could give rise to civil liability of the parent company. In case of follow-on actions, Article XVII.82 provides that the BCA's finding that an infringement has been committed is binding on the courts. Hence, where the BCA finds that a parent company has infringed competition law together with its subsidiary, that parent company's infringement would automatically be established, paving the way for its civil liability.

If the competition law infringement of a subsidiary is not attributable to its parent company under the specific rules of competition law, the general principles of Belgian tort law provide that a parent company can only be held liable for its subsidiary under very strict conditions.[29]

There has only been one case of parental liability in a damages claim for breach of competition law. In a 2006 judgment, the Commerce Court of Brussels found that the parent company could not be held liable for any infringement committed by its subsidiary because the claimant had not proved that the parent company had influenced the conduct of its subsidiary.[30]

[28] Decision of the Belgian Competition Authority. 22 March 2017 MEDE-I/O-13/0001, Algist Bruggeman: a fine was imposed on parent company called Lesaffre et Compagnie S.A; Decision of the Belgian Competition Authority. 2 May 2017, MEDE– I/O-13/0031 AUD *Kartel in het kader van een openbare aanbesteding*. In this case, fines were imposed on parent companies called ABB Ltd, Siemens AG, NV Karpimos SA and Schneider Electric SE.

[29] K. Geens et al, Overzicht van rechtspraak. Vennootschappen, TPR 2012, p. 219.

[30] Comm. Brussels, 15 November 2006, RG 8069/02-9060/02, unpublished, quoted in X. Taton e.a., 'Chronique de jurisprudence…', *op. cit.*, *R.D.C.*, 2013/1, p. 29, no. 60.

### 3.3.2 Associations of Undertakings

#### 3.3.2.1 Allocation of the Liability Between Associations of Undertakings and Their Members

Both the association of undertakings and the undertakings concerned can be fined for infringement of competition rules. In the *Cement* case, both the undertakings and the associations of undertakings involved were fined. However, the fact that the only three members of trade association FEBELCEM were also all held to have breached competition rules influenced the calculation of the fine in relation to FEBELCEM (see below).[31]

As the BCA is following the method applied by the Commission, the value of sales of the association of undertakings used to calculate the basic amount of the fine, 'will generally correspond to the sum of the value of sales by its members'.

Neither Book IV CEL nor the 2014 Fining Guidelines contain clear rules on how the 10% turnover cap is applied in relation to associations of undertakings. Article IV.74 only refers to the turnover as reported according to Title IV Book IV of the Companies' Code. This suggests that the 10% cap would be calculated according to the turnover reported by the association of undertakings. However, it remains unclear how this would be applied in practice, in particular if the association of undertakings does not report a turnover (under the Companies Code).

It should be noted that under the previous fining guidelines, the Belgian Competition Council could impose a fine on the basis of the sum of the value of sales of its members. However, the Belgian Competition Council diverged from the methodology in the *Cement* case.[32] The Council held that since an infringement was established not only against by FEBELCEM but also against its sole three members, it would be disproportionate to impose a fine in relation to the sum of the value of sales of the three sole members. In such circumstances, the Council imposed a lump sum fine of EUR 100,000 on FEBELCEM. A lump sum fine of EUR 100,000 was also imposed on another trade organisation without reportable turnover.

#### 3.3.2.2 Request of Financial Contribution from Member Undertakings to Pay the Fine

Belgian law has not implemented an arrangement similar to the one laid down in Article 23.4 of Regulation 1/2003, which requires the association of undertakings that cannot itself pay for its fine to request a contribution from its members, failing which the Commission can demand payment of that fine directly from the undertakings involved in the decision-making process that led to the infringement.

In its 2004 guidelines, the BCA had taken a different route: rather than ensuring that the solvency of an association of undertakings was backed by its members, it provided that 'in cases in which associations of undertakings are involved, the decision

[31] Decision of the Belgian Competition Council, 31 August 2013, COIN-I/O-05/0075, *Cimenteries CBR S.A., Holcim (Belgique) S.A, Compagnie des ciments belges S.A, FEBELCEM A.S.B.L et CRIC*.

[32] Decision of the Belgian Competition Council, 31 August 2013, COIN-I/O-05/0075, *Cimenteries CBR S.A., Holcim (Belgique) S.A, Compagnie des ciments belges S.A, FEBELCEM A.S.B.L et CRIC*.

must, in so far as possible, be directed at the undertakings that are members of those associations, and the fines must be imposed on them'. This approach was rather born out of necessity since the Belgian legislator had, in Article 36 section 1 of the 1991 Protection of Economic Competition Act, only provided that fines could be imposed 'on each of the undertakings involved'. Since 'associations of undertakings' were not mentioned in that article, the Belgian Competition Council (the predecessor of the BCA) held that it could not impose fines on associations of undertakings. This resulted in cases where the Belgian Competition Council would find a breach of competition law by an association of undertakings without imposing a fine.[33]

This was remedied by the legislator in 2006, when the legislator adopted the Protection of Competition Act of 10 June 2006, whose Article 41 allowed the Belgian Competition Council to impose fines 'on each of the undertakings and associations of undertakings involved'. In its 2011 guidelines, Belgium therefore tied in more closely with the European rules. Article 40 of those guidelines then provided that 'when a fine is imposed on an association of undertakings and the association demonstrates its insolvency, it can be held to ask its members for contributions to allow it to pay the fine'. However, this still did not allow the Belgian competition regulator to directly demand payment from the members of the association, as is the case in European cases.

The BCA's 2014 Fining Guidelines now simply refer to the EU Fining Guidelines, which do not contain any guidance on the imposition of fines on insolvent associations of undertakings. This is likely an oversight of the BCA. There is therefore no clear guidance on how the BCA would currently deal with insolvent associations of undertakings.

### 3.3.3 Employee/Director Indirect Financial Liability

#### 3.3.3.1 Directors

Companies established under Belgian law can generally hold their directors liable for unlawful acts committed by them in their position of director through a so-called *action mandati*. That *action mandati*—also called a 'corporate action'—can only be brought by the board of directors or a special proxy holder, acting on a majority decision of the general meeting of shareholders (Articles 289 and 561 Companies Code) or by minority shareholders who jointly owe a set number of company shares and have not voted in favour of a grant of discharge for the directors (Articles 290 and 562 Companies Code).

Through the *action mandati*, the company can hold directors liable for breaches of their management duty and, more specifically, their duty to act as a competent, careful and diligent director would in the same circumstances.[34] However, courts can

[33]See, for instance, case 2007-I/O-05 of 29 January 2007, VZW Fedoba, at para. 17 and case 2008-P/K-45 of 25 Juli 2008, Associatie van Interieurarchitecten van België, at para. 64.

[34]H. Braeckmans and R. Houben, Handboek vennootschapsrecht, Antwerp, Intersentia, 2012, p. 335.

only carry out a so-called marginal review, meaning that they will in principle defer to a director's judgement and discretion and can only find a breach where the director's behaviour appears manifestly wrongful.[35]

A breach of competition law committed by a director could be considered a breach of that director's management duty and hence could lead to an *actio mandati*. However, our research could not uncover any cases where a company has in fact sued its own directors for breach of competition law.

While directors' liability insurance policies generally offer a wide cover for civil liability, actions brought by the company itself against those directors used to be excluded as insurance companies feared of collusion between companies and their directors.[36] In recent years, however, the *actio mandati* is no longer excluded from most insurance policies, unless for cases where there are indications of collusion.[37]

Nevertheless, Article 62 of the Insurance Act of 4 April 2014 provides that an insurer never has to provide cover where the policyholder intentionally caused the loss. This greatly reduces the use of directors' liability insurance policies for breaches of competition law: insofar as those breaches were committed intentionally, they are in any event excluded from cover.

#### 3.3.3.2 Employees

To protect employees from the risk of civil liability that they are exposed to during their employment, Article 18 of the Labour Agreements Act of 3 July 1978 creates immunity for employees from civil liability for acts committed during the performance of their labour agreement, except in cases of fraud or grave error.[38] Employees can also be held liable in case of minor errors, though only if they commit them habitually.

This immunity has a broad scope and covers not only breaches of the labour agreement but also wrongful acts other than breaches of contract committed during the performance of their labour agreement.[39] However, the immunity is limited to civil liability; the employee remains liable for criminal and administrative sanctions.

There is fraud when the employee not only wants to cause the harmful fact but also intends its harmful consequences. A grave error, on the contrary, requires that the employee commits an unintentional error that is so grave and extreme that it cannot be excused.[40]

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[35] P. Verschelden, P. Meeuwssen, and J. Laurijssen, Aansprakelijkheid van bestuurders en zaakvoerders, Mechelen, Kluwer, 2011, p. 9; H. Braeckmans and R. Houben, Handboek vennootschapsrecht, Antwerp, Intersentia, 2012, p. 336.

[36] N. Glibert, De verzekering van bestuurdersaansprakelijkheid, RGAR 2010, p. 14670-6.

[37] M. De Roeck, De verzekering van de bestuurdersaansprakelijkheid in X, Bestendig handbook vennootschap & aansprakelijkheid, Mechelen, Kluwer, 2000, p. 77.

[38] Cass. 14 February 2003, Arr.Cass. 2003, p. 409.

[39] W. Van Eeckhoutte, W. Taghon and S. Vanoverbeke, Overzicht van rechtspraak. Arbeidsovereenkomsten (1988–2005), TPR 2006, p. 239.

[40] W. Van Eeckhoutte, Sociaal compendium 2017-28. Arbeidsrecht met fiscale notities, band 1, Mechelen, Kluwer, 2017, p. 870.

As a result, companies will not always *per se* be able to hold their employees liable in front of civil court for breaches of competition law. Rather, it will need to be assessed on a case-by-case basis whether the employee acted either intentionally or so gravely wrongfully that he can be held liable.

## 3.4 Enforcement of Competition Law in Practice

### 3.4.1 Administrative Enforcement Is Dominant

In relation to horizontal infringements of competition law, administrative enforcement is dominant. Nevertheless, the number of infringement decisions by the BCA has remained relatively low, not the least due to the limited resources of the BCA. The level of fines imposed over the last 5 years has remained relatively modest, to the exception of the *PCHC* case (Tables 3.1 and 3.2).

### 3.4.2 Private Enforcement Plays a Key Role for Vertical Infringements

Private actions for damages for cartels have remained relatively rare, but some landmark decisions have been rendered recently in the elevators cartel case and in some abuse of dominance cases in the telecom and electricity sectors.[41]

Vertical infringements of competition law are mostly addressed in civil proceedings rather than through the BCA's administrative enforcement. Such infringements are often invoked in contractual disputes between suppliers and distributors (in particular in the context of actions for an injunction or through claims of nullity of the supply contracts, including the vertical restrictions).

There have been several important cases of abuses of dominant position both in administrative prosecutions before the BCA as in cease-and-desist proceedings or damage actions in front of the civil courts.

As mentioned above, sanctions under Belgian competition rules are not considered as criminal sanctions *sensu strictu*, and there is therefore no enforcement of competition law through criminal law.

[41] See X. Taton, T. Franchoo, I. Rooms and N. Baeten, Les actions civiles pour infraction au droit de la concurrence. Chronique de jurisprudence (2011–2015). Private handhaving van het mededingingsrecht in België. Overzicht van rechtspraak (2011–2015), R.D.C., 2017/8, pp. 808 to 818; X. Taton, T. Franchoo, I. Rooms and N. Baeten, Chronique de jurisprudence (2004–2010). 1ère partie – Overzicht van rechtspraak (2004–2010). 1ste deel. Les actions civiles pour infraction au droit de la concurrence – Private handhaving van het mededingingsrecht, R.D.C., 2013/1, pp. 27 to 30.

**Table 3.1** The five highest fines imposed in one procedure between 2013 and 2017 (involving more individual fines)

| Case | Year | Fine |
|---|---|---|
| Personal care, hygiene and cleaning products (*PCHC* case) | 2015 | EUR 174 million |
| Algist Bruggeman | 2017 | EUR 5.5 million |
| Industrial batteries | 2016 | EUR 3.9 million |
| Electrabel | 2014 | EUR 2.2 million |
| Public procurement | 2017 | EUR 1.8 million |

Fines totaling EUR 14.5 million in the 2013 *Cement* case were annulled in 2016 by the Brussels Court of Appeal

**Table 3.2** The five highest fines imposed on individual undertakings

| Undertaking | Year | Fine |
|---|---|---|
| Carrefour Belgium S.A. | 2015 | EUR 36.4 million |
| Etn. Franz Colruyt N.V. | 2015 | EUR 31.6 million |
| The Procter & Gamble Company, Procter & Gamble International Operations S.A., and Procter & Gamble Services Company N.V. | 2015 | EUR 29.1 million |
| Ets. Delhaize Frères et Cie 'Le Lion' (Groupe Delhaize) | 2015 | EUR 24.9 million |
| L'Oréal Belgilux S.A. | 2015 | EUR 8.0 million |

All the above fines were imposed in the *PCHC* case

### 3.4.3 Coordination of the Imposition of Sanctions by Different Institutions

A pending BCA investigation by the does not technically prevent courts from establishing an infringement of Articles IV.1 or IV.2 CEL.

There are only few mechanisms in place to coordinate the outcome of different proceedings. Civil proceedings are not suspended pending an investigation of the BCA. However, since the implementation of the Damages Directive in Title III of Book XVII CEL, decisions of the BCA finding a competition law infringement are binding on the courts seized by damage actions like similar decisions of the European Commission.

In the unlikely case of parallel prosecutions by the BCA and the criminal authorities, the general principle of *non bis in idem* will apply.

**Acknowledgements** The authors wish to thank Xavier Taton, Kevin Xhebexhia and Nayantara Ravichandran for their valuable assistance in preparation and review of this Report. The authors bear, however, sole responsibility for this report. The views expressed in this report are those of the authors and do not necessarily reflect the views of Linklaters LLP, or any of its clients.

# France

**4**

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## 4.1 General Principles on Sanctions Against Anti-competitive Practices

Anti-competitive practices can be sanctioned through various tools that have been strengthened by courts and FCA decisions (Sect. 4.1.1). However, the question of the effectiveness and efficiency of sanctions is an essential element of the FCA's

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_4

competition policy, which explains the development of negotiated procedures, thereby fostering the effective enforcement of competition law (Sect. 4.1.2).

## 4.1.1 Tools Available Against Anti-competitive Infringements

Financial penalties imposed by the FCA are predominant under French competition law (Sect. 4.1.1.1). Nevertheless, there has been an increase in civil penalties during recent years (Sect. 4.1.1.2). French law also provides for criminal sanctions, but these are rarely, if ever, applied (Sect. 4.1.1.3). Apart from competition law, there are ancillary offences that may be sanctioned by French courts or other administrative authorities (Sect. 4.1.1.4). Can these various sanctions be imposed cumulatively (Sect. 4.1.1.5)?

### 4.1.1.1 Sanctions Against Anti-competitive Practices Imposed by the French Competition Authority

In accordance with Article L.464-1 and following of the French Commercial Code and Regulation 1/2003, the FCA is empowered to impose sanctions against the authors of anti-competitive practices. These penalties may be financial (Sect. 4.1.1.1.1) or non-financial (Sect. 4.1.1.1.2). The decisions of the FCA may be the object of an action for annulment or amendment before the Paris Court of Appeal. The time limit to submit the appeal is one month from the notification of the decision to the parties.[1]

#### 4.1.1.1.1 Financial Penalties

The FCA has the power to impose financial penalties on companies and organisations that engaged in anti-competitive practices and abuses of a dominant position or that applied abusively low prices (prohibited, respectively, by Articles L. 420-1, L. 420-2 and L. 420-5 of the Commercial Code).[2] Articles 101 and 102 TFEU can be implemented by the FCA only in cases where the anti-competitive practice in question is liable to affect trade between Member States within the internal market of the European Union.

To allow companies to better understand the method of determining financial penalties, the FCA issued on 16 May 2011 a notice regarding the setting of financial penalties (the **Penalties Notice**).[3] This notice constitutes a ‘directive’ in the administrative sense of the term, which is therefore opposable to the FCA and which allows companies to benefit from a certain degree of legal certainty.

[1] Article L. 464-8 of the Commercial Code.

[2] Article L. 464-2 I of the Commercial Code and Article 5 Council Regulation 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, OJ 2003, L 1, p. 1.

[3] Notice of 16 May 2011 on the Setting of Financial Penalties.

In accordance with the Penalties Notice, the FCA, firstly, determines a basis amount for each undertaking involved in an anti-competitive practice based on a percentage of the sales made in France with the products or services sold by the concerned undertaking in relation to the offence. To determine this percentage, the FCA considers the seriousness of the facts alleged against the undertaking involved and the extent of the damage caused to the economy by the anti-competitive practice.[4] As regards the seriousness of the facts, the FCA's assessment depends on the nature of the infringement in question, its objective characteristics, the sector concerned and the persons likely to be affected.[5] The FCA also takes into account the damage to the economy, i.e. the extent of the infringement, the economic characteristics of the relevant markets, the cyclical and structural consequences of the infringement and its impact on the economy.[6] Once the sale value has been determined and the applicable percentage established, the FCA takes into account the individual duration of the participation in the infringement by the undertaking concerned.

Secondly, the FCA adjusts such basis amount in order to take into account mitigating circumstances, aggravating circumstances and other existing elements of individualisation. Reiteration is an element that will be considered by the FCA in the individual determination of the sanction; by increasing the amount initially determined, in a proportion between 15 and 50%, the sanction shall then 'be [proportionate] to the eventual reiteration of the prohibited practices'.[7] In accordance with the Penalties Notice, there is reiteration of an anti-competitive practice when four cumulative criteria are met: (i) a previous infringement to competition law has been established before the end of the new practice; (ii) the identified new practice is identical or similar, by its object or effect, to the one that gave rise to the previous establishment of the infringement; (iii) the first establishment of the infringement has become final at the date on which the FCA decides on the new practice; and (iv) the time elapsed between the previous establishment of the infringement and the beginning of the new practice does not exceed 15 years.

Thirdly and finally, the FCA verifies whether the final amount of the financial penalty exceeds the legal maximum or not. When the offender is a company, the legal ceiling for the sanction that may be imposed is 10% of the highest amount of the worldwide net turnover made before taxes in the year preceding the year in which practices have been implemented. If the author of the anti-competitive practice is not a company, this amount is limited to EUR 3 million.[8] Under the simplified procedure, the maximum amount does not exceed EUR 750,000.[9]

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[4] Notice of 16 May 2011 on the Setting of Financial Penalties, section 22.

[5] Notice of 16 May 2011 on the Setting of Financial Penalties, section 25–26.

[6] Notice of 16 May 2011 on the Setting of Financial Penalties, section 32.

[7] Notice of 16 May 2011 on the Setting of Financial Penalties, section 43–52.

[8] Article L. 464-2 I 4° of the Commercial Code.

[9] Article L. 464-5 of the Commercial Code.

The FCA may then adjust the amount of the penalty depending on the financial capacity of the undertaking involved.[10] The sanction may also be adapted following the implementation of a leniency or settlement procedure (see Sect. 4.1.2.2 below).[11]

The FCA may also impose financial penalties if injunctions (see Sect. 4.1.1.1.2 below), or commitments (see Sect. 4.1.2.2 below), are not respected. Moreover, to put an end to anti-competitive practices, the FCA may also impose periodic penalties on offenders within the limit of 5% of the company's average daily turnover.[12]

#### 4.1.1.1.2 Non-financial Penalties

If urgency so requires, the FCA may issue provisional measures.[13] To be ordered, such measures require a referral on the merits before the FCA. The denounced practice must bring serious and immediate harm to the general economy, to the sector concerned, to the interests of consumers or to the complainant. The provisional measure must remain strictly proportionate to the urgency of the situation.

In addition, the undertakings concerned by a decision of the FCA may be ordered to publish at their own expense the decision that applies to them according to the modalities specified in that decision.[14]

### 4.1.1.2 Sanctions Against Anti-competitive Practices Before Civil Courts

French civil courts can pronounce three types of sanctions against the authors of anti-competitive practices: the cessation of the practices or the provisional measures useful to remedy it, the nullity of anti-competitive agreements or clauses and the repair of the damage suffered by the payment of damages and interests.

The cessation of anti-competitive practices and the useful provisional measures may be ordered by the judge hearing the application for interim measures on the basis of Articles 872 and 873 of the Code of Civil Procedure.[15]

The nullity of anti-competitive agreements and the compensation for the damage suffered are pronounced by specialised civil or commercial jurisdictions.[16] The action in nullity is based on Article L. 420-3 of the Commercial Code, which provides: 'Any commitment, agreement or contractual clause relating to a practice prohibited by Articles L. 420-1 and L. 420-2 is void.'[17] The payment of damages is

[10]Notice of 16 May 2011 on the Setting of Financial Penalties, section 60–65.

[11]Article L. 464-2 III of the Commercial Code.

[12]Article L. 464-2 II of the Commercial Code.

[13]Article L. 464-1 of the Commercial Code.

[14]Article L. 464-2 I 5° of the Commercial Code.

[15]See for example: Court of Cassation, Commercial Chamber, 15 November 2011, n°10-27388, Fnac vs. Accentiv'Kadeos; Court of Appeal of Paris, 7 December 2016, n°16/15228, OBUT.

[16]Articles L. 420-7, R. 420-3 et R. 420-4 of the Commercial Code.

[17]See for example: Court of Cassation, Commercial Chamber, 6 February 2007, n°05-13204, Concurrence vs. JVC France.

ordered on the basis of Articles 1240 and 1241 of the Civil Code and Article L. 481-1 of the Commercial Code.[18]

Civil litigation of anti-competitive practices takes place, depending on the cases, after the adoption of a decision by a competition authority (*follow-on action*) or independently from any referral to such an authority (*stand-alone actions*). In the first case, the violation of competition law is, most often, invoked by the plaintiff in the action as its main claim and in order to obtain damages. In the second hypothesis, the litigation is more diversified: the infringement of competition law is invoked not only as a main claim but also as a defensive argument or by way of a counterclaim; the measures requested are also more varied since they may concern the invalidity and/or damages or the cessation of the measures by interim measures.

While it may have been considered in the past that civil litigation of anti-competitive practices was insufficiently developed, this statement largely ignores cases in which the infringement of competition law was invoked in contractual disputes. In reality, it was especially true for litigations following a decision made by a competition authority. At the European level, less than 25% of cases in which the European Commission found a competition law infringement resulted in an action for damages between 2006 and 2012.[19] However, in such cases, it is not uncommon that claims for compensation are processed through alternative dispute resolution (settlement or arbitration).

In any case, civil litigation, including compensation, is making progress, from both quantitative and qualitative points of view. In addition to the increase in the number of decisions, the specialisation of the jurisdictions applying competition law has led to a marked improvement in the decisions taken, whether they are independent or consecutive. The number of decisions made following an action for damages is increasing. In France, despite a rise in power over the last 10 years, only 163 decisions were adopted by the courts between 1986 and June 2013 concerning anti-competitive practices.[20]

In order to encourage actions for compensation, Directive 2014/104 of 26 November 2014 lays down precise rules relating to the disclosure and production of documents, the effects of the FCA's decisions, compensable damages, the solidarity of those responsible for the practice. These provisions have been transposed in Article L. 481-1 and following of the French Commercial Code by Order No. 2017-303 of 9 March 2017. The positive effects of such new provisions are yet to be shown.

[18] See for example: Court of Appeal of Paris, Pole 5, Chamber 11, 8 June 2018, n°16/19147, Orange vs. SFR.

[19] OECD, Note by the Secretariat, Relations Between Public Action and Private Actions for the Application of Competition Law, 15 June 2015.

[20] OECD, Relations Between Public Action and Private Actions for the Application of Competition Law, 15 June 2015.

#### 4.1.1.3 Sanctions Against Anti-competitive Practices Before Criminal Courts

Article L. 420-6 of the Commercial Code provides that it is ‘punishable by and imprisonment for four years and a fine of EUR 75 000, the fact, for any natural person, to fraudulently take personal and decisive part in the design, organization or implementation of practices referred to in Articles L. 420-1, L. 420-2 and L. 420-2-2’ and that the ‘court may order that its decision shall be published in full or by extracts in the newspapers it designates, at the expense of the convicted person’. These sanctions are rarely applied in practice.

Criminal sanctions can also be applied to legal persons. Article L. 121-2 of the Criminal Code provides that ‘legal persons, to the exclusion of the State, are criminally responsible, according to the distinctions of Articles 121-4 to 121-7, of the offenses committed, on their behalf, by their organs or representatives’. This rule applies in particular to criminal penalties that may be imposed in conjunction with sanctions relating to anti-competitive offences (see Sect. 4.1.1.4 below), such as the offence of favouritism.

Criminal sanctions are applied by all French criminal jurisdictions. There is no specialised criminal jurisdiction in competition law. Article L. 462-6 of the Commercial Code provides that where the facts appear likely to justify the application of Article L. 420-6 of the Commercial Code, the FCA has the possibility to send the file to the public prosecutor.

#### 4.1.1.4 Sanctions of Anti-competitive Practices on Grounds Other Than Competition Law

In some cases, anti-competitive practices may be sanctioned on other grounds. In particular, there are certain offences provided for by the Criminal Code.

Thus, irrespective of the sanctions applicable under Article L.420-6 of the Commercial Code (see Sect. 4.1.1.3 above), certain provisions punish conducts that could constitute anti-competitive practices.

This is notably the case of the offence of favouritism, characterised by the unjustified attribution or attempt of attribution of an advantage by a person in charge of the public authority, which is punishable under Article 432-14 of the Criminal Code. This offence has the effect of undermining freedom of access and equality of candidates in the framework of public contracts and public service delegations.

In financial matters, criminal sanctions are applicable in case of offences including insider trading, money laundering, fraud or cavalry.

Similarly, Article 313-6 of the Criminal Code punishes, with regard to auctions, agreements that undermine the principle of free bidding and that seek to exclude or attempt to exclude certain bidders or to limit or try to limit bids or auctions.[21]

[21] To our knowledge, there is no recent application of this text.

#### 4.1.1.5 Hierarchy Among Sanctions

Under French law, there is no provision providing for the coordination of the various sanctions that may be imposed in the presence of anti-competitive practices. However, the principle 'non bis in idem', according to which the same person cannot be prosecuted several times for the same facts, is generally applied by French courts. Nevertheless, this application remains relative. For example, double criminal and tax prosecution is possible under French law. Thus, each jurisdiction may impose penalties on the basis of separate provisions.

Applied to competition law, the FCA and the European Commission consider that a company cannot be prosecuted for anti-competitive behaviour for a grievance for which it has already been condemned, or declared not responsible by a decision that is no longer appealable, only if the facts, the offender and the protected legal interest are identical.

But the same behaviour may be subject to different provisions, which may possibly be cumulated if they belong to a different legal interest that shall be protected.

Finally, another principle applied by French law provides a hierarchy between courts applying sanctions to the same parties for the same facts. According to this principle, a civil or a commercial court that is aware that a criminal procedure is ongoing in the same case is bound to suspend the proceedings until the criminal court has made its decision (Article 4 of the Code of Criminal Procedure).

### 4.1.2 Effectiveness and Efficiency of Sanctions

The FCA and the public authorities have had the opportunity to comment, on several occasions, on the objectives foreseen by the imposition of sanctions against anti-competitive practices, including the effectiveness of the various types of sanctions in relation to these objectives (Sect. 4.1.2.1). With respect to efficiency, it is interesting to analyse the importance of reiteration in competition offences (Sect. 4.1.2.2). Moreover, apart from the sanction mechanisms, the FCA and the legislator implement several negotiated procedures which aim is to achieve these objectives more effectively, in exchange of a reduction or elimination of the applicable sanctions (Sect. 4.1.2.3).

#### 4.1.2.1 Effectiveness of Sanctions

The administrative sanctions imposed by the FCA pursue a number of objectives since, as recalled by the Paris Court of Appeal, these sanctions are intended to punish the authors of infringements to competition law rules and to dissuade economic agents to engage in such practices.[22] Similarly, the FCA stated that 'the specific role of financial penalties is to punish authors of anticompetitive practices and dissuade

[22] Court of Appeal of Paris, 9 April 2002, Geodis Overseas France.

all economic actors from engaging in such practices. Financial penalties that the FCA may impose, pursue therefore a dual objective: repressive on the one hand, and dissuasive on the other.'[23]

A report of the Committee on Economic Affairs of 6 May 2015 states that over a period of 11 years, the FCA has collected EUR 4.5 billion in fines for anti-competitive practices and abuses of a dominant position, making it the most active authority in Europe in fighting these illicit behaviours. The year before the report, the FCA had issued seven sanction decisions, for a record total of more than one billion euros.[24] In 2017, the FCA issued nine sanction decisions for a total amount of more than 497 million euros.[25]

Bruno Lasserre, back then President of the FCA, said that if the severity of the sanction should vary depending on the seriousness of each case and the damage to the economy, sanctions should also remain dissuasive. As an example, he recalled that 50% of the activity of the Competition Council (former name of the FCA until 2009) was dedicated to tendering agreements in the building and public works sector, and due to weak sanctions, the same companies continued to implement anti-competitive agreements. Following the imposition of harsher penalties, the number of anti-competitive practices decreased. Bruno Lasserre nevertheless asserted that the deterrent effect does not prohibit a case-by-case assessment or pragmatism in the calculation of the sanction.

However, beyond this first statement, several documents, more or less official, including a report of 20 September 2010 on the assessment of penalties for anti-competitive practices,[26] have expressed criticisms of the sanction mechanisms offered by French law against the authors of anti-competitive practices. While this document focused mainly on the lack of predictability and legal certainty in the method of setting fines, a problem partially solved by the adoption of the Penalty Notice (see Sect. 4.1.1.1 above), this report also criticised the sanction regime provided by French law.

In particular, it was argued that a sanction system focused on the company as a legal entity posed difficulties and that many stakeholders remained in favour of a

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[23]FCA, La sanction des ententes et des abus de position dominante, Questions-réponses sur les sanctions pécuniaires, 16 May 2011.

[24]Assemblée Nationale, Commission des affaires économiques, Mercredi 6 mai 2015, Séance de 16 heures 15, Compte rendu n° 56, Présidence de M. François Brottes Président, Audition de M. Bruno Lasserre, président de l'Autorité de la concurrence, accompagné de Mme Virginie Beaumeunier, rapporteure générale de l'Autorité de la concurrence.

[25]The FCA has a very high rate of recovery of its sanctions: as of 31 December 2017, the recovery rate of penalties pronounced in 2015 was more than 95%, and in 2016 more than 99% (see the 2017 Annual Report of the FCA).

[26]Rapport sur l'appréciation de la sanction en matière de pratiques anticoncurrentielles, Members of the mission: Jean Martin Folz, former CEO of PSA; Christian Raysseguier, Chief Attorney General at the Court of Cassation; Alexander Schaub, lawyer, former Director General of Competition at the European Commission; Rapporteurs: Étienne Chantrel, trainee administrator of INSEE; Charles de Navacelle, lawyer at the bars of Paris and New York, JONES DAY.

more diversified sanction system, as compared to administrative sanctions that include a significant dimension of liability of natural persons.[27]

Finally, the limited role of criminal sanctions in anti-competitive practices has been pointed out in various analyses.

From the point of view of effectiveness, the main obstacle to private actions, apart from the possible prescription, is the gap between the right to act of the victims, widely recognised under French law, and its implementation. In case of spread-out damage, the victims, having suffered a small damage, abstain from acting because the stake of the dispute (the compensation sought) is likely to be lower to the legal costs. To overcome this phenomenon of rational apathy, the law of 17 of March 2014 relating to consumption has introduced a real group action in French law. However, it benefits only consumers; companies are being excluded. Moreover, the action can only be brought after a decision of a competition authority condemning the anti-competitive practice.

The difficulties in providing evidence are also likely to deter victims from acting. However, their situation was very much improved with the transposition of the Directive of 26 November 2014, thanks to several types of presumption. In particular, an irrefragable presumption is attached to the decisions of the Competition Authority finding an anti-competitive practice.[28] Similarly, Article L. 481-7 of the Commercial Code now provides that 'it is presumed, in the absence of proof to the contrary, that an agreement between competitors causes harm'.

#### 4.1.2.2 Efficiency of Sanctions Against Anti-competitive Practices: Reiteration

As stated above, the legislator has addressed the issue of the reiteration of anti-competitive practices by providing for appropriate sanctions. In this respect, in order to ensure greater efficiency of the sanctions in the event of a repetition of anti-competitive practices and in accordance with the principles established by the European Union's case law, French courts have stated that the rules on reiteration should follow those applied for liability; that is to say that the existence of the reiteration must be assessed by taking into account not only the behaviour of the undertaking or organisation that is the object of the new condemnation but also the behaviour of the other companies belonging to the group, in application of the principle of economic unity.

In the *Orange Caraïbes* decision,[29] the Court of Cassation (French Supreme Court) clarified that reiteration must be taken into account when 'one of the legal entities composing the company in question [. . .] has already been sanctioned'.

[27]The report also indicates that others remained unfavourable, fearing that it would be impossible to punish managers and that only lower-level managers would in practice be punished.

[28]Article L. 481-2 paragraph 1 of the Commercial Code.

[29]Court of Cassation, Commercial Chamber, 6 January 2015, n° 13-21.305 and 13-22.477, Orange Caraïbes.

However, the decision-making practice over the last 6 years is not really abundant. Indeed, whether it is the FCA, the Court of Appeal or the Court of Cassation, only about fifteen decisions have condemned more heavily companies for repetition of anti-competitive practices. In addition, most cases of re-offending relate to abuse of dominance position practices.

Therefore, reiteration does not stricto sensu seem to be a 'major' problem in French law with regard to the small proportion of available decisions, while some companies have not been dissuaded from implementing anti-competitive practices. Regarding these companies, the decision-making practice shows that the absence of the criterion of identity or similarity of practices is the cornerstone of their defence as they seek by any means to differentiate the different practices they have implemented when facing the risk of a fine increase.

In a judgment of the Court of Cassation of September 2017[30] relating to practices of EDF (Electricité de France, the French incumbent company for electricity supply) implemented in the sector of the services intended for the production of photovoltaic electricity, the Court ruled that two practices of eviction of the same operator would fulfil the condition of identity or similarity of practices.

In its decision 13-D-20 of 17 December 2013, the FCA imposed a 25% fine surcharge for reiteration since EDF had already been convicted under Article L. 420-2 of the Commercial Code for predatory practices in 2000. Indeed, EDF practised low prices, allowing it to obtain a contract for electricity supply with a municipality without being subjected to a tender procedure, and entered into agreements of excessive duration, which led to the foreclosure of competitors.

EDF was condemned by the FCA in 2013 for misusing brands creating confusion in the mind of consumers and using its client list to promote offers on another market.

In 2015,[31] the Court of Appeal reformed the FCA's decision by considering that the practices were neither identical nor similar, without providing a substantiated reasoning, thus merely recalling the nature of the first offence that allowed EDF to quickly acquire an important position on the market, thanks to means distorting competition on the merits since they could not be replicated by competitors.

The Court of Cassation overruled the judgment of the Paris Court of Appeal on this point, considering that in both infringements there was a practice of eviction, and recalled that the 'reiteration of anticompetitive practices can be retained for identical or similar new practices, by their object or their effects, to those giving rise to the previous establishment of the infringement, without this qualification requiring an identity as to the practice implemented or the market concerned'.

In conclusion, it can be observed that the Court of Cassation, like the FCA, obviously has a more flexible approach, which makes it easier to pronounce an increase in the fines imposed on companies, probably in a strategy to strengthen the deterrent power of pecuniary sanctions.

[30]Court of Cassation, Commercial Chamber, 27 September 2017, n°15-20.087.

[31]Court of Appeal, 21 May 2015, n° 2014/02694.

With regard to private actions, the main obstacle in terms of efficiency concerns claims for compensation for the damages caused by anti-competitive practices and, more specifically, the assessment of damages. As much as the principle, which is the integral reparation, is simple, so much its implementation is delicate. In order for this principle to be respected in practice, the evaluation must be such as to fully and effectively compensate the repairable damages, which implies having previously identified them well, including over time. In this respect, the Paris Court of Appeal now very clearly distinguishes between 'immediate prejudice', 'deferred prejudice' and 'residual damage,' which is posterior to anti-competitive practice and corresponds to the persistence of effects during a certain period of time.[32]

The directive of 26 November 2014, as well as the text transposing it into French law, did not provide for any significant change in this respect. As it stands, judges can proceed by estimate, as the directive requires. Efforts have been made on the methodological level. For example, the Paris Court of Appeal has developed a collection of practical methodological sheets devoted to the reparation of the economic damage and, for some of them, the repair of competitive damages.[33]

In addition, the Civil Liability Reform Project is expected to require judges to make a separate assessment of each of the alleged causes of harm,[34] which should improve the assessment of damages, although progress may still be required.

#### 4.1.2.3 Negotiated Procedures Developed by the FCA

French law provides for several procedures alternative to the repression by the imposition of a financial penalty by the FCA: the so-called negotiated procedures, which include the leniency procedure (Sect. 4.1.2.3.1), the commitment procedure (Sect. 4.1.2.3.2) and the settlement procedure, which replaced in 2015 the 'no-contest of objections' procedure (Sect. 4.1.2.3.3).

These procedures, considered successively below, require an active participation and cooperation of companies, which may ultimately have an impact on financial penalty. This impact can be reflected either by the complete disappearance of the financial penalty, in the case of the commitment procedure or first-rank leniency, or by its decrease, in the case of settlement or second et seq. rank leniency.

##### 4.1.2.3.1 The Leniency Procedure

The leniency procedure takes place before an anti-competitive agreement is detected by the FCA and when that latter does not have sufficient information on the alleged anti-competitive practice. This procedure only covers offences falling under the provisions of Article L. 420-1 of the Commercial Code and, where applicable,

[32] Paris Pole 5, 4th Chamber, 14 December 2016, RG n° 12/002045, Practices implemented by SNCF and Expedia Inc.

[33] *Réparation du préjudice économique - Fiches méthodologiques,* Cour of Appeal of Paris - October 2017.

[34] Draft article 1262 al. 4 of the Civil Code.

Article 101 TFEU and particularly concerns cartels between undertakings aimed at price fixing, defining production or sales quotas and allocating markets.

Under this procedure, codified in IV of Article L. 464-2 of the Commercial Code, the FCA may grant an exemption from financial penalties incurred by a company or organisation participating in an agreement if it provides information and evidence on the existence of the anti-competitive agreement. This exemption may be complete if the company is the first to provide these elements and if the FCA either was not aware of the existence of the cartel or did not have sufficient evidence to establish its existence. If the FCA already has evidence of the cartel, it may, however, grant partial exemption from the penalty if the company provides evidence that significantly add value to the evidence already available to the FCA.

The FCA adopted a procedural notice on the leniency programme on 3 April 2015 aimed at clarifying the practical implementation of leniency and incorporating several principles developed in the context of the FCA's leniency decision-making practice.

Since the adoption of the new notice of 2015, the leniency procedure has been adopted in two FCA decisions.[35] In 2016, seven leniency applications were filed before the FCA after 2 years, during which only one application was filed each year.

#### 4.1.2.3.2 The Commitments Procedure

The commitment procedure applies to situations that raise ongoing competition concerns and can be terminated quickly by means of commitments. This procedure can only take place prior to the issuance of the statement of objections by the General Rapporteur (independent head of investigation services within the FCA).

Article 464-2 I of the Commercial Code thus provides that the FCA 'may also accept commitments offered by companies or organizations and such as to put an end to its competition concerns that may constitute prohibited practices under Articles L. 420-1 to L. 420-2-2 and L. 420-5 or contrary to the measures taken pursuant to Article L. 410-3'.

The commitment procedure allows companies to develop, on a voluntary and negotiated basis, solutions that meet the FCA's competition concerns. Indeed, Article R. 464-2 of the Commercial Code provides that 'when the Competition Authority intends to apply Article L.464-2 I concerning the acceptance of commitments proposed by companies, the rapporteur shall inform the undertakings or organisms concerned of his preliminary assessment regarding the concerned practices'. Following this preliminary assessment, if these established proposals for commitments are accepted, they allow the termination of the FCA's procedure before any finding of infringement. This procedure speeds up the resolution of cases.

[35] French Competition Authority, No. 17-D-20 relating to practices implemented in the resilient flooring sector and No. 15-D-19 to practices implemented in the messaging and messaging sectors express.

On 2 March 2009, the FCA published a procedural notice regarding the commitments procedure aimed at clarifying the purpose of the procedure and at summarizing the relevant decision-making practice relating to it. In 2017, five commitment acceptance decisions were adopted by the FCA, compared to only one in 2016, four in 2015 and 2014.

#### 4.1.2.3.3 The Settlement Procedure

After a statement of objection, the undertaking involved has a last opportunity to negotiate for the mitigation of the penalty that might be imposed. The settlement procedure, which replaced the previous procedure of non-contesting the statement of objections, enables undertakings that waive their right to challenge the statement of objection notified by the FCA's investigation services, to be proposed by the FCA's General Rapporteur a settlement setting the maximum and minimum amount of the penalty incurred (Article L. 464-2 III of the French Commercial Code). In this context, 'when the company or organism undertakes to change its behaviour, the General Rapporteur may take this into account in his transaction proposal. If, within a deadline set by the General Rapporteur, the organism or company agrees to the transaction proposal, the General Rapporteur proposes to the FCA, which hears the company or organism and the commissioner of the Government without prior establishment of a report, to pronounce the financial penalty provided for in I within the limits set by the settlement' (Article L. 464-2 III of the Commercial Code).

In 2016, out of a total of seven decisions issued, the FCA implemented the new transaction procedure in four cases.[36] In 2017, the procedure was implemented in five cases.[37]

The FCA announced in a press release of 19 October 2017 on the settlement procedure and the compliance programmes its intention to adopt a procedural notice clarifying the conditions for implementing the settlement procedure. On the basis of a draft notice made public on 8 March 2018, the FCA has therefore launched a public consultation, which should help feed the process of preparing this document.

[36] French Competition Authority, No. 16-D-05 and 16-D-06 on the installation and maintenance of professional kitchens; French Competition Authority, No. 16-D-15 on the exclusive importation of consumer products in Overseas France; French Competition Authority, No. 16-D-27 on the land assistance market.

[37] French Competition Authority, No. 17-D-01 on practices implemented in the tableware and cooking sector; French Competition Authority, No. 17-D-02 relating to practices implemented in the field of competition petanque balls; French Competition Authority, No. 17-D-06 relating to practices implemented in the natural gas supply, electricity and energy services sector; French Competition Authority, No. 17-D-14 relating to practices implemented in the sector of the distribution of consumer products in Overseas France; French Competition Authority, No. 17-D-20 relating to practices implemented in the resilient flooring sector.

## 4.2 Special Cases of Liability for Anti-competitive Practices

Among the special cases of liability for anti-competitive practices, a specific place must be reserved for the parent companies' liability and associations of undertakings' liability because of their practical importance (Sect. 4.2.1).

A recent survey conducted among French citizens at the request of the FCA in January 2018, 'the opinion French citizens on cartels', has also revealed a strong moral disapproval of these practices. The respondents are favourable to the application of individual sanctions in addition to the sanctions imposed on companies and 'consider that the sanctions must be sufficiently dissuasive (. . .) without going as far as prison sentences'.[38] This suggests a focus on managers and employees' liability (Sect. 4.2.2).

### 4.2.1 The Liability of Parents' Companies and Associations of Undertakings

Separate consideration should be given to the liability of parent companies for the actions of their subsidiaries, largely based on a presumption mechanism (Sect. 4.2.1.1) and the liability of professional organisations based on their behaviour (Sect. 4.2.1.2).

#### 4.2.1.1 The Liability of Parent Companies for the Actions of Their Subsidiaries

As a preliminary point, the notion of 'group of companies' is not easy to circumscribe and differs in competition law from corporate law.

According to corporate law, the ownership of 50% or more of the capital share of a holding company or of a sub-holding company is required to exercise a 'majority control'. But French competition law does not only reason on the basis of control and capital ownership. French competition law considers other criteria such as economic links between companies or organisational links within the meaning of Article L. 233-1 and following of the Commercial Code. All of these criteria must allow establishing the decisive influence of the parent company over its subsidiaries, which is to say that the group of companies includes any entity carrying on an economic activity, regardless of the legal status of that entity.

French courts consider that a parent company can be considered as being responsible for the anti-competitive behaviour of one of its subsidiaries, whether it is wholly or in majority owned by the mother.

[38]French Competition Authority, L'Opinion des Français sur les cartels, Sondage Ifop pour l'Autorité de la Concurrence, January 2018.

These precedents echoed various decisions of the Court of Justice of the European Union (**CJCE**), issued in the field of anti-competitive practices and which invite to assess the liability of a parent company for offences committed by its subsidiaries.[39]

The offence committed by a subsidiary may be attributed to the parent company, where that subsidiary does not autonomously determine its market behaviour but essentially applies the instructions given by the parent company. French then European case law introduced a presumption of liability of the parent company regarding the anti-competitive activities of the subsidiary when the former holds all or almost all the capital.

This is the result of a judgment issued by the Cour de Cassation on 18 October 2017.[40] In this case, which affects only the domestic market, the Supreme Court upheld the conviction of a parent company, applying the principle of simple presumption cited by the CJEU, where the parent company holds almost all the share capital of the subsidiary.

The judgment also highlights the extreme difficulty in practice of reversing this presumption and the impossibility for a parent company to exonerate itself from the responsibility it bears. The Court of Cassation rejected all the arguments put forward by the parent company for this purpose, including but not limited to the fact that the parent was merely a holding company simply providing financial direction (i), the group had very diversified activities (ii), the mother company and the subsidiary did not exercise an activity on the same market, (iv) the existence of an autonomous local management within the subsidiary. The Court of Cassation simply held that the parent company owned 99.6% of the capital share of the subsidiary and that the latter, not having its own legal department, resorted to that of the parent company, which de facto created a close link between the two entities.

Other elements confirm the extreme difficulty for a parent company to escape its liability.

As its responsibility is considered as being independent from that of the subsidiary, the status for limitation of the FCA claims against subsidiaries does not prevent the prosecution of the parent company, which is considered as personally and solitarily liable with the subsidiary for the same actions.

Where the subsidiary chooses the transaction procedure and does not contest the objections,[41] contrary to its parent company, the judge can either deduce that the subsidiary is autonomous in relation to its parent company and, consequently, exclude the latter from the litigation or decide that this circumstance is not sufficient to rebut the presumption of decisive influence of the parent company over its subsidiary, in which case these two companies form a single economic entity.

[39]ECJ, case C-516/15, *Akzo Nobel*, ECLI:EU:C:2017:314, but also ECJ, case C-597/13, *Total*, ECLI:EU:C:2015:613 for the paraffin wax market.

[40]Court of Cassation, Commercial Chamber, 18 October 2017, n° 16-19.120 F-PB.

[41]Negotiation procedure aiming at obtaining a lower financial penalty, that was in force until 2015, when it was replaced by the transaction procedure, see Sect. 4.1.2.3.3 above).

The compliance programme put in place by the parent company is also not an element exonerating its responsibility. In a 2017 press release,[42] the FCA reaffirms the importance it attaches to compliance programmes and encourages companies to use them. However, it stresses that it now considers that the development and implementation of compliance programmes are intended to be part of the day-to-day management of companies. It is true that it is even today a legal obligation resulting from the law 'Sapin 2'.[43]

The absence of a connecting factor between the parent company and the subsidiary, making that latter liable for the actions of its subsidiary, cannot be shown by a lack of organisation or supervision of the working processes within the group. What matters is that, at the time of the infringement, the parent company had a decisive influence on the commercial policy of its subsidiary. Therefore, the fact that the parent company implemented a compliance programme is irrelevant. Such a programme is likely to establish that there are certain efforts within the firm to prevent infringements of competition law, but logically a 'program that works' must be able to effectively prevent serious and long-standing cartel offences.

Commitments to implement such compliance programmes are also not generally intended to justify a reduction of penalties for competition law infringements, especially in the case of infringements particularly serious, such as horizontal agreements.

The fine is set differently for an independent company and a group of companies. When the company concerned belongs to a group, the ceiling of the fine is the consolidated turnover of the group, regardless of the activity or geographical area where the practices took place.

In addition, the penalty is adjusted upwards to take into account the following:

- The company concerned has an important size, economic power or significant global resources, particularly in relation to the other authors of the infringement.
- The group to which the concerned company belongs is itself important in size or economic power or has significant global resources, this factor being considered in particular where the infringement is also attributable to the company that controls it within the group.[44]

#### 4.2.1.2 The Liability of Association and Grouping of Undertakings

Only the liability of professional organisations and unions that do not make a turnover, excluding momentary groupings of companies, is considered below.

[42]See Press release of 19 October 2017 relating to the settlement procedure and compliance programmes. See also, in this sense, point 464 of Decision No. 17-D-20 of 18 October 2017 on practices in the resilient floor coverings sector.

[43]Law no 2016-1691 of 9 December 2016 relating to transparency, to the struggle against corruption and to modernisation of economic life.

[44]Penalties-Notice, 16 May 2011.

In France, a constant decision-making practice and case law[45] emphasises that professional organisations must not exceed the mission of information, advice and defence of the professional interests to which they are entrusted by law, by adopting a behaviour that can directly or indirectly influence competition between its members.

When a professional association or trade union plays an active role in the organisation of the anti-competitive practices, when it organises within its bodies exchanges of information and adapts the procedures to make them less detectable, it is liable individually alongside the companies involved in the infringement.[46] In some rather rare and relatively old cases, the FCA has been able to decide that only the association should be condemned.[47]

Sanctions imposed on associations and grouping of undertaking participate in the deterrence strategy applied by the FCA.

The basis of the fine incurred by professional associations was originally symbolic, constituted by the contributions that they receive, but since the Penalties Notice, the basis of the calculation of the financial penalty is the sum of the total turnover realised by each active member of the association in the market affected by the infringement. If the association is not solvent, it must launch a call for contributions to cover the amount of the fine, which means having it borne by each member in due proportion.[48]

### 4.2.2 The Liability of Managers and Employees for Anti-competitive Practices

Both managers and employees are not affected by the financial penalties imposed by the FCA. Instead, there is the question of their possible criminal (Sect. 4.2.2.1) and civil liability (Sect. 4.2.2.2).

#### 4.2.2.1 Criminal Liability

Pursuant to Article L. 420-6 of the Commercial Code, a natural person can be criminally held liable with up to a four-year prison sentence and a fine of EUR 75,000. However, the law requires the several cumulative conditions that severely limit this possibility. ‘Any natural person’ is covered but on the condition that such person has ‘fraudulently personally and decisively participated in the design,

[45]French Competition Authority, decisions No. 02-D-23 of 27 March 2002, No. 02-D-59 of 25 September 2002, No. 03-D-46 of 30 September 2003, No. 06-D-03bis of 9 March 2006, No. 08-D-32 of 16 December 2008.

[46]French Competition Authority, decision No. 17-D-20 of 18 October 2017 relating to practices implemented in the resilient flooring sector.

[47]See for example French Competition Authority, decision No. 96-D-60 of 15 October 1996.

[48]Penalties-Notice, point 65.

organization or implementation of anti-competitive practices' referred to in Articles L. 420-1, L. 420-2 and L. 420-2-2 of the Commercial Code.

If participation can indifferently affect the design, the organisation or the implementation, it is further required that the participation of the natural person is personal and decisive. These two requirements clearly limit the possibility of applying the text particularly to an employee. In addition, the participation must be fraudulent.

The case law, which is rather limited in this area, has logically retained a restrictive conception of this provision: in practice, it is used only in the case of the most serious practices, namely horizontal agreements and, more particularly, cartel agreements on public tenders and only gives rise to rare convictions.[49]

Criminal sanctions have been very rarely applied in the last 10 years. The evolution of case law illustrates a tendency to abandon criminal sanctions in practice. In the last 5 years, no criminal conviction has been issued. In a recent period, only a very small number of convictions were handed down under Article L. 420-6 of the French Commercial Code:

– Court of Appeal of Rouen 19 December 2012—No. 12/00205 (ten months of conditional imprisonment);
– Court of Appeal of Rouen 14 December 2009—No. 09/00028 (one year of conditional imprisonment—EUR 25,000 fine);
– Court of Cassation, Criminal Chamber, 17 June 2009—n° 08-84.482 (EUR 10,000/8000/5000/2000 fines);
– Court of Cassation, Criminal Chamber, 20 February 2008—n° 02-82.676 (ten months of conditional imprisonment and EUR 20,000 fine to fifteen months of conditional imprisonment and EUR 60,000 fine);
– Court of Appeal of Paris 11 December 2007—n° 06/09190 (three months of conditional imprisonment); and
– Court of Appeal of Paris 27 February 2007—n° 06/00406 (fifteen months of conditional imprisonment and EUR 60,000 fine or twelve months of conditional imprisonment and EUR 50,000 fine or fifteen months of conditional imprisonment and EUR 50,000 fine).

Even if, according to Article L 462-6 of the French Commercial Code, the FCA may address the file, when appropriate, to the public prosecutor, the FCA indicated in its procedural notice of 3 April 2015 on the leniency procedure that 'leniency is one of the legitimate reasons for not forwarding to the public prosecutor's office a file in which a natural person, belonging to the undertaking which has been exempted from financial penalties, could also the object to such criminal proceedings' (point 53).

The deterrent effect of a sanction is necessarily lessened if the sanction is rarely or never applied.

[49]For an example, see Court of Cassation, Criminal Chamber, 17 July 2009, No. 08-84482.

However, although not enforced, these criminal sanctions remain a valuable tool for companies in implementing their compliance programmes. The existence of these criminal sanctions is brandished by the companies at their employees in order to make them aware of the risk of taking part in an anti-competitive practice.

The dissuasive effect of these sanctions is therefore not totally excluded and can prove to be a strong psychological tool within companies.

#### 4.2.2.2 Civil Liability

As to the civil liability of the employee who took part in an anti-competitive practice, French law does not provide for any specific competition law rule. It is therefore necessary to apply ordinary law of civil liability and the principles established by case law. It follows, on one hand, that in principle the employee who acts ‘without exceeding the limits of the mission which is assigned to him by his employer’ does not engage his responsibility with regard to third parties and, on the other hand, that there is an exception to this immunity, at the civil level, in the case of ‘an injury of the victim resulting from a criminal offense or wilful misconduct’.[50]

In the case where the employee acts without exceeding the limits of his mission, his civil liability is not excluded, but the employee escapes its consequences and enjoys personal immunity. Thus, the employee’s liability insurance remains exposed to an action engaged by the employer or his insurer.[51]

It follows from the exceptions set out by case law that, at least in theory, an action for civil liability may be brought against an employee either in the event of a criminal offence, on the combined basis of Articles L. 420-6 of the Commercial Code (liability for competition law infringement) and 1240 of the Civil Code (general civil liability), or in case of civil wilful misconduct, pursuant to Article 1240 of the Civil Code. Under tort law, the characterisation of wilful misconduct may be directed to any wilful conduct causing the damage, notwithstanding the intention to realise the resulting harm. However, in practice, we are not aware of any such actions.

There is also the question of whether the employer, who would have been obliged to compensate the victims of anti-competitive practices, may bring an action against the employee.

In the case where a victim has no action against the employee who has acted within the limits of the mission, the employer cannot claim subrogation in the rights of the victim and therefore has no legal ground for an action for contribution against his employee.[52]

On the contrary, in the case where the employee may be held liable by the victim of anti-competitive practices for criminal misconduct or wilful misconduct, the employer could exercise, provided he has compensated the victim for its loss, an

[50]Court of Cassation, plenary assembly, 25 February 2000, Costedoat; Court of Cassation, plenary assembly, 14 December 2001, n° 00-82.066, Cousin; Court of Cassation, Civil Chamber, 2$^{nd}$, 21 February 2008, n° 06-21.182.

[51]Court of Cassation, Civil Chamber, 1$^{st}$, 12 July 2007, Bull. I, n° 270.

[52]Court of Cassation, Civil Chamber, 2nd, 20 December 2007 n° 07-13403.

action for contribution. On the other hand, where the employer's insurer has taken over the compensation of the victim, Article L. 121-12 paragraph 3 of the Insurance Code provides that 'the insurer has no action against (. . .) subordinates, employees, (. . .), except in the case of malicious act committed by one of these people'.

The civil liability of corporate officers is subject to special provisions under French law (Articles L. 225-251 of the French Commercial Code for public limited companies and L. 223-22 for limited liability companies). It should be considered both in external relations, against victims of anti-competitive practices, and in internal relations with the company convicted for having engaged in anti-competitive practices.

In external relations, the executive officer incurs personal civil liability only exceptionally, when he commits a fault separable from his functions. According to case law, this is the case when he commits 'intentionally a fault of a particular gravity incompatible with the normal exercise of social functions'[53] or an intentional criminal offence.[54]

The executive officer, condemned under Article L. 420-6 of the Commercial Code, can be sued by victims seeking to obtain damages. Although such criminal convictions are rare because of the requirements of the text, a decision of the Criminal Court of Rouen has admitted the application of Article L. 420-6 and gave right to a civil action for compensation formed by a public authority.[55] The Court relies on Article 2 of the Code of Criminal Procedure, which provides that 'a civil action for compensation for a damage caused by a crime, a felony or a contravention is for the benefit of all those who have personally suffered the damage directly caused by the offense'. It condemns in solidum the natural persons concerned and the companies to which they belong to repair the damage caused by the anti-competitive agreement by the payment of damages.

In the absence of a criminal offense, the participation of an officer in the implementation of an anti-competitive practice may nonetheless be characterised as wilful misconduct of a particular gravity incompatible with the normal exercise of its social functions and will incur him personal civil liability.

But these hypotheses are for the moment largely theoretical.[56]

In internal reports, executive officers may be held liable for breach of legal provisions of a particular gravity and incompatible with the normal exercise of social functions, or for misconduct in their management without the fault attributed to them being intentional.[57]

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[53] Court of Cassation, Commercial Chamber, 20 May 2003, n° 99-17.092.

[54] Court of Cassation, Commercial Chamber, 28 September 2010, n° 09-66.255.

[55] Correctional Court of Rouen, 11 September 2008, *Travaux routiers en Seine-Maritime*, Concurrences n° 1-2009, page 192, commentary of C. Lemaire.

[56] See nevertheless Court of Appeal of Aix-en-Provence, 2nd Chamber, 4 December 2008, SA Eurelec Midi Pyrénées c/ Max D., R. G. n° 07/09250.

[57] Court of Cassation, Commercial Chamber, 9 March 2010, n° 08-21.547.

Officers as shareholders or associates (depending on the type of company) may sue the directors for compensation of the damages suffered by the company to whom has been attributed the anti-competitive practice and who has been condemned to pay a financial penalty and/or damages for anti-competitive practices.

An action for compensation may be exercised *ut universi* by its legal representatives.[58] In practice, this concerns the hypothesis in which the management of the company has changed and where the new directors are acting against the preceding ones. This action is unusual, but an illustration exists: the new leaders of a company condemned to pay a penalty by the Competition Council acted against the instigator; the latter was ordered to compensate the damages caused to the company by paying an amount corresponding to the entire financial penalty.[59]

An action for compensation for the damage suffered by the company may also be exercised, *ut singuli*, by a shareholder or a partner in lieu of the executive officers who would refuse to do so.[60] However, it does not appear that this action has been used in case of a conviction of a company for anti-competitive practices.

A shareholder or a partner also has the possibility to exercise an individual action for compensation against the director(s), if he can prove personal damage that is distinct from the one suffered by the company itself.

Finally, in insurance law, Article L. 113-1 paragraph 2 of the Insurance Code states that 'the insurer does not answer for loss and damage resulting from an intentional or fraudulent fault of the insured person'. For the purposes of this text, intentional fault is understood more strictly than under civil liability law: the author of the fault must have wished not only the action or omission at the origin of the damage, but also the damage itself,[61] as it happened.[62]

## 4.3 Conclusion

The tools available to the competition authorities (the FCA and courts) in order to impose the respect of competition rules in France are varied and similar to those at the disposal of the European Commission. French law encompasses a large variety of negotiation tools, which evolve according to the evolution of the FCA's practice.

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[58]See Article L. 223-18, first paragraph for limited liability companies, L. 225-51-1, first paragraph, L. 225-56, first paragraph, L. 225-66 and L. 225-251 for public limited companies, L. 227-6, first paragraph and 3 for simplified joint stock companies, L. 222-2 for limited partnerships and L. 221-3 paragraph 1 for partnerships, 1850 of the Civil Code for civil societies.

[59]Court of Appeal of Aix-en-Provence, 2nd Chamber, 4 December 2008, SA Eurelec Midi Pyrénées c/ Max D., R. G. n° 07/09250.

[60]Article L. 223-22 paragraph 3 for limited liability companies, L. 225-252 of the Commercial Code for public limited companies, L. 226-1 paragraph 2 and L. 227-8 for simplified joint stock companies, Article 1843-5 paragraph 1 of the Civil Code for civil companies.

[61]Court of Cassation, Civil Chamber, 1st, 2 February 1994, Bull. civ. I, n° 37.

[62]Court of Cassation, Civil Chamber, 1st, 27 May 2003, Bull. civ. I, n° 125; Court of Cassation, Civil Chamber, 2nd, 18 February 2010, n° 08-19044.

Moreover, similarly to the European Commission that issues guidelines to explain the way it applies the binding legal texts and to recall the interpretation adopted by itself or competent courts on the subject at stake, the FCA resorts to soft law to describe the way it calculates the financial penalties and the way it applies the procedures alternative to sanctions, which allows the authorities to adapt their practice to their needs and to the evolution of said practices.

Therefore, the portfolio of sanctions to competition law seems to be relatively wide and efficient in France.

However, the FCA keeps discovering cartels and imposing very important financial penalties today (a financial sanction above EUR 300 million has been imposed on manufacturers of PVCs and linoleums for price fixing in 2017), in spite of clear rules, efficient negotiation procedures and a very high rate of collection of financial penalties (close to 100% in 2015 and 2016). This seems to show a lack of 'corporate Social responsibility' in France. The best guarantee for corporate social responsibility is competition, as Milton Friedman used to say.

Moreover, criminal sanctions (fine and imprisonment for natural persons) are—almost—never imposed.

As a result, violating competition law in France seems to be almost only a matter of financial capacity today—setting aside the devastating commercial effects of the publication of the court or FCA's decisions.

But other theories explain the persistence of violations of competition law: according to Professor Sibony, one has to take into account the limited rationality of entrepreneurs whose decisions are often the result of an excess of confidence, leading to distortion, as compared to what a more rational decision would have been. Such an excess of optimism can lead to predatory strategies that do not reunite the conditions of rational profitability and that can lead to maintaining cartels in spite of very important sanctions.[63]

This tendency towards limited rationality suggests that the increase of financial penalty is not sufficiently deterrent and that other forms of sanctions, not harmful to the undertaking, should be applied (i.e. to the employees as a group), such as, for example, criminal sanctions towards the natural persons who committed a breach (directors).[64] As a matter of fact, developing the application of criminal sanctions, especially to the employees who are personally involved in the implementation of the anti-competitive practice, would probably introduce a more deterrent effect as it would entail the imposition of financial penalty, as well as possible imprisonment sentences, on the person involved. It makes no doubt that a person aware of this risk would either renounce to take part in an anti-competitive practice or order another employee to do so if it were aware of the personal risks involved.

To this end, the legal basis for this criminal penalty (Article L. 420-6 of the Commercial Code) should be amended, which requires the adoption of a new law that would require a thorough social and political debate.

[63] A. L. Sibony in its contribution to the report 'For a reform of Competition Law'.

[64] A. L. Sibony in its contribution to the report 'For a reform of Competition Law'.

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# Germany

# 5

Carsten König

## 5.1 Introduction

In Germany, competition law is primarily enforced by the *Bundeskartellamt* and the competition authorities of the *Länder*, Germany's sixteen federated states. The competition authorities can rely on one of two proceedings: minor legal consequences such as prohibitions, behavioural and structural remedies, and disgorgements can be ordered in purely administrative proceedings. These are conducted under sections 54–62 of the German Competition Act (*Gesetz gegen Wettbewerbsbeschränkungen*[1]—henceforth GWB) in conjunction with the Administrative Procedure Act (*Verwaltungsverfahrensgesetz*[2]) of the German federation or the respective *Land*. Regulatory fines, however, the most relevant sanction in German competition law, may only be imposed in regulatory offence procedures under sections 81–86 GWB in conjunction with the Act on Regulatory Offences

Throughout the footnotes, the citations for some sources (such as judgments, official reports) have been translated into English for the reader's convenience. The acronym 'DE' indicates that those sources are only available in German.

[1]English translation (2018) https://www.bundeskartellamt.de/SharedDocs/Publikation/EN/Others/GWB.html?nn=3591568. Accessed 5 June 2018.

[2]Federal authorities, such as the *Bundeskartellamt*, operate according to the VwVfG, the *Verwaltungsverfahrensgesetz* of the German federation, whereas regional and local authorities (such as the competition authorities of the *Länder*) must apply the *Verwaltungsverfahrensgesetz* of the respective *Land*.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_5

(*Ordnungswidrigkeitengesetz*[3]—henceforth OWiG) and the German Code of Criminal Procedure (*Strafprozessordnung*[4]—henceforth StPO).

Although the law on regulatory offences is generally considered part of criminal rather than administrative law ('criminal law's little sister'), regulatory offences are no crimes and regulatory fines are no criminal punishment. In particular, regulatory fines can be imposed without a trial and also against legal persons and associations of persons, even though corporate criminal liability does not exist in German law. There is, however, one genuine competition crime: under section 298 of the German Criminal Code (*Strafgesetzbuch*[5]—henceforth StGB), individuals who restrict competition through agreements in the context of public bids may be punished by imprisonment of up to five years or a criminal fine (the 'bid-rigging offence'). Like the entire StGB, this provision is exclusively enforced by public prosecutors and criminal courts and not by competition authorities.

In line with the EU Directive on Antitrust Damages Actions (Directive 2014/104),[6] damages can be claimed under sections 33a–33h GWB from anyone who infringes a substantive provision of the GWB or Article 101 or 102 TFEU. This section of the GWB was significantly changed by the Ninth Amendment to the GWB, which entered into force in 2017 and transposed the EU Directive into German law. Private enforcement under these rules is supposed to complement, not substitute, the effective administrative and criminal enforcement of competition law.

This report provides a detailed description and analysis of the outlined enforcement system with particular regard to the question how liability is to be assigned and allocated to and between multiple persons responsible, such as a corporation and individual managers or employees, a parent company and a subsidiary or an association of undertakings and its members. The report covers administrative proceedings (Sect. 5.2), regulatory offences (Sect. 5.3), criminal offences (Sect. 5.4) and damages (Sect. 5.5). The focus is on German law as it stands, but relevant reform proposals are also discussed (Sect. 5.6). The author aimed to include empirical findings wherever possible.[7]

[3]English translation (2015) https://www.gesetze-im-internet.de/englisch_owig/englisch_owig.html. Accessed 5 June 2018.

[4]English translation (2014) https://www.gesetze-im-internet.de/englisch_stpo/index.html. Accessed 5 June 2018.

[5]English translation (2013) https://www.gesetze-im-internet.de/englisch_stgb/englisch_stgb.html. Accessed 5 June 2018.

[6]Directive 2014/104, OJ 2014, L 349, p. 1.

[7]Unfortunately, only little statistical data is available on the practical application of competition law in Germany. The *Bundeskartellamt* publishes biennial activity reports with selected numbers, but their scope is limited. In particular, the authority does not inform about all running or completed cases. Only fining decisions must be published according to section 53(5) GWB.

## 5.2 Administrative Proceedings

Purely administrative proceedings can be instituted by the competition authorities *ex officio* or upon application by any complainant, section 54(1) GWB. Such proceedings are to be conducted in accordance with sections 54–62 GWB in conjunction with the applicable Administrative Procedure Act.[8] In principle, they can be targeted against anyone who is able to infringe competition laws; section 54 (2) no. 2 GWB refers to 'cartels, undertakings, business and trade associations or professional organisations' as examples. Administrative proceedings can result, in particular, in prohibition decisions, section 32(1) GWB; conduct-related or structural remedies, section 32(2) GWB; reimbursement orders, section 32(2a) GWB; commitment decisions, section 32b GWB; the withdrawal of block exemptions, section 32d GWB; or the disgorgement of benefits, section 34 GWB. In urgent cases, the competition authorities may also order interim measures, section 32a GWB. Administrative proceedings are relatively frequent: out of 155 cartel proceedings listed on the *Bundeskartellamt's* website, only 57 were regulatory offence proceedings. Even more strikingly, only 4 out of 82 abuse proceedings were regulatory offence proceedings.

In accordance with the EU Directive on Public Procurement,[9] (potential) cartel offenders may also be excluded from procurement procedures, section 124(1) no. 4 GWB. Such exclusion does not require a prior decision by a competition authority but may be independently decided by the contracting authority carrying out the procurement procedure where the authority has sufficiently plausible indications to conclude that an undertaking has engaged in anticompetitive collusion.

## 5.3 Regulatory Fines

Fines may only be imposed in quasi-criminal regulatory offence proceedings. These are to be conducted in accordance with sections 81–86 GWB in conjunction with the OWiG. The initial proceeding leading to the imposition of a fine does not involve a trial and therefore seems to resemble purely administrative proceedings, such as those described above or conducted by the European Commission under Regulation 1/2003. However, the quasi-criminal nature of the German regulatory offence proceeding becomes apparent if one also considers the review procedure. Once an addressee files an objection against the initial fining decision, the procedure will be turned into a quasi-criminal trial, section 67 OWiG, which will largely be conducted under the rules of the German Code of Criminal Procedure, the StPO. A public prosecutor rather than the competition authority will argue the case, and following a full hearing of evidence, the competent court will deliver a *de novo* decision.[10]

[8] See note 2 above.

[9] Art. 57(4)(c) of Directive 2014/24, OJ 2014, L 94, p. 65.

[10] See also Sect. 5.3.3 below.

Under German law, fines can be imposed against legal persons and associations of persons, as well as against 'representatives', i.e. individual employees in managing roles. A shared prerequisite is that the offender committed the infringement intentionally or negligently.[11] Section 81(1)–(3e) GWB and sections 9, 30, 130 OWiG deal with the assignment and allocation of liability. Section 81(4) GWB and section 17 OWiG address the calculation of fines. The application of the relevant legal provisions is further described in guidelines published by the *Bundeskartellamt*, in particular the 2013 Fining Guidelines[12] and the 2006 Leniency Programme.[13]

### 5.3.1 Legal Persons and Associations of Persons

Since genuine corporate criminal liability does not exist in German law, the StGB and the quasi-criminal OWiG strictly focus on the conduct of individuals. Even legal provisions that specifically address business organisations, such as sections 1, 19–21 GWB and Articles 101 and 102 TFEU, may technically only be infringed upon by individuals. For this purpose, section 9 OWiG extends the 'special personal characteristics' of organisations (such as the fact that they are part of an 'undertaking' in terms of competition law) to their representatives, i.e. individual employees in managing roles. These employees thus become able to commit organisational offences, such as those established under Articles 101 and 102 TFEU and the GWB. Once the individual's offence is established, *liability* (i.e. not the offence) may then be extended according to section 30 OWiG to the legal persons or associations of persons represented by the individual.

Alternatively, legal persons or associations of persons may be liable for their representatives' omission to take supervisory measures that would have prevented or significantly impeded the violation of any of the undertaking's duties, the violation of which carries a criminal penalty or regulatory fine, section 130(1)(1) OWiG.[14] The necessary supervisory measures include the appointment, careful selection and supervision of supervisory personnel.[15]

#### 5.3.1.1 Corporate Offenders

Legal persons or associations of persons whose representatives commit, or do not prevent their subordinates from committing, a competition law offence may be held liable according to section 81(1)–(3) GWB in conjunction with sections 9, 30 or

[11] For competition law offences, this follows from section 81(1) and (2) GWB.

[12] Bundeskartellamt, Guidelines for the setting of fines in cartel administrative proceedings (25 June 2013).

[13] Bundeskartellamt, Notice on the immunity from and reduction of fines in cartel cases (7 March 2006).

[14] See e.g. Bundeskartellamt, Decision of 25 April 2007 – B7-42/06, p. 13; Bundeskartellamt, Decision of 17 December 2003 – B9-9/03, pp. 23–26; Bundeskartellamt, Decision of 8 August 2001 – B9-120/00, pp. 10–11.

[15] Section 130(1)(2) OWiG.

**Table 5.1** Multiplication factors for establishing upper limit[a]

| Total turnover | <EUR 100 m | EUR 100 m–EUR 1 bn | EUR 1 bn–EUR 10 bn | EUR 10 bn–EUR 100 bn | >EUR 100 bn |
|---|---|---|---|---|---|
| Factor | 2–3 | 3–4 | 4–5 | 5–6 | >6 |

[a]Fining Guidelines (note 12), para. 13

sections 9, 130 OWiG. For intentional offences, the competition authority may impose a fine of up to 10% of the total turnover of the relevant undertaking in the business year preceding the authority's decision, section 81(4)(2) GWB. For negligent offences, the upper limit is set at 5% of the total turnover, section 17(2) OWiG. In both cases, the total turnover is to be calculated 'based on the turnover achieved worldwide by all natural and legal persons operating as a single economic entity', section 81(4)(3) GWB, i.e. the perspective here is on entire corporate groups.[16] In fixing the specific amount of the fine, the competition authorities shall have regard, according to section 81(4)(6) GWB, both to the gravity and to the duration of the infringement.

The *Bundeskartellamt* explains its approach to calculating fines in its Fining Guidelines. The most recent version was published in 2013.[17] As a starting point, the *Bundeskartellamt* sets a case-specific upper limit at or below the total turnover percentage cap according to section 81(4)(2) GWB. For this purpose, the authority takes 10% of the turnover achieved from the infringement[18] and multiplies it with one of the factors in Table 5.1 above.

Example: If the undertaking's total turnover is EUR 10 billion, the statutory cap according to section 81(4)(2) GWB for an intentional offence will be EUR 1 billion. If the total turnover from the infringement is EUR 300 million, the *Bundeskartellamt* will, however, set the upper limit at EUR 150 million (EUR 300 million $\times$ 0.1 $\times$ 5).

The exact amount of the fine will then be set at or below the upper limit based on an overall appraisal of all aggravating and mitigating factors, such as the type and duration of the infringement, the size and importance of the markets affected, the degree of organisation among the parties involved, their respective responsibility for the offence and market positions, the extent of intention or negligence, and previous infringements.[19] Fines are set individually for every offender, i.e. they are not affected by the fact that other offenders may also be fined.

There is no official rule saying that damages shall be taken into account when calculating fines. However, it has been argued in the literature that deductions should

[16]Section 81(4)(3) GWB was introduced through the Amendment on Price Abuses (*Preismissbrauchsnovelle*) of 21 December 2007 in order to provide legitimation for an already established—but contested—practice by the *Bundeskartellamt*.

[17]See note 12 above.

[18]The turnover achieved from the infringement is the domestic turnover achieved by the undertaking from the sale of the products or services connected with the infringement over the duration of the violation. The duration is set at least twelve months, even if it was in fact shorter. See Fining Guidelines (note 12), paras. 11–12.

[19]Fining Guidelines (note 12), para. 16.

be made as far as the purpose of a fine is already achieved by an undertaking's obligation to pay damages.[20] Such a rule could be modelled after section 34(2) GWB, stipulating that damages, fines and reimbursement orders must be taken into account in the disgorgement of benefits. Where offenders cooperate, the *Bundeskartellamt* generally tends to favour victim compensation over fines. For example, in 2009, the authority refrained from imposing fines even in a case concerning horizontal price fixing after the undertakings agreed to make up for the losses they had caused.[21]

The *Bundeskartellamt* may grant immunity or fine reductions to cartel participants who, by their cooperation, contribute to uncovering a cartel. Immunity is reserved to the first applicant who provides information that enables the *Bundeskartellamt* to obtain a search warrant or, if that stage has already passed, to prove the offence.[22] Fine reductions up to 50% may be granted to everyone who makes a significant contribution to proving the offence.[23] Leniency applicants must cooperate with the *Bundeskartellamt* for the entire duration of the proceedings. Independent of its leniency programme, the *Bundeskartellamt* grants fine reduction of up to 10% to offenders who confess their infringement and enter into a settlement agreement.[24]

In terms of procedure, when the *Bundeskartellamt* receives a duly substantiated leniency application, it will typically initiate a regulatory offence proceeding. Formally, the investigation is addressed to all potential cartel participants, including the one asking for leniency. The *Bundeskartellamt* assesses whether the undertakings committed an offence and whether the leniency requirements are met. If they are, the case will be closed with respect to the leniency applicant, and only the remaining cartel participants will be fined.

The *Bundeskartellamt* encourages corporate compliance programmes by emphasising that they may prevent competition law offences or help companies to uncover infringements as early as possible and apply for leniency.[25] However, the authority does not grant fine reductions for the mere existence of compliance programmes, even if they are genuine and generally successful.[26] Such programmes may exempt undertakings from supervisory liability under section 130(1) OWiG

[20] D. Poelzig and T. Bauermeister, Kartellrechtsdurchsetzung, *ne bis in idem* und Verhältnismäßigkeit (Teil 2) – Die Anrechnung kartellrechtlicher Sanktionen, NZKart 2017, pp. 571–574; M-P. Weller, Die Anrechnung pönaler Schadensersatzleistungen gemäß section 33 GWB auf Kartellbußen, ZWeR 2008, pp. 170–193.

[21] Case Summary of 25 May 2009 – B3-144/08. See also E. Bueren, Germany. In: Kilpatrick, Kobel and Këllezi (eds), Compatibility of Transactional Resolutions of Antitrust Proceedings with Due Process and Fundamental Rights & Online Exhaustion of IP Rights – LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, Springer 2016, pp. 218–19.

[22] Leniency Notice (note 13), paras. 3–4.

[23] Leniency Notice (note 13), para. 5.

[24] Bundeskartellamt, Activity Report 2007/08 – BT-Drs. 16/13500 (DE), p. 35.

[25] Bundeskartellamt, Activity Report 2011/12 – BT-Drs. 17/13675 (DE), p. 32.

[26] Bundeskartellamt, Activity Report 2011/12 (note 25), p. 32.

(i.e. relieving them from responsibility for acts by ordinary employees), but they will not be of any help once a manager or any other representative commits a competition law offence, causing liability under section 30 OWiG. The *Bundeskartellamt* explains its strict stance with the danger of creating false incentives,[27] as well as with difficulties in the assessment of the quality of corporate compliance programmes.[28]

The German Federal Court of Justice (*Bundesgerichtshof*—henceforth BGH), however, has recently stated in a criminal case concerning tax evasion that it *is* relevant for the calculation of a fine under section 30 OWiG whether the undertaking in question has installed an effective compliance programme.[29] The BGH even instructed the trial court to take into account compliance efforts that were taken *after* the infringement occurred.[30] It is currently much debated whether the ruling has any relevance for future competition law cases.[31]

#### 5.3.1.2 Parent Companies

Until recently, parent companies could only be fined if their own representatives had either actively participated in a competition law offence or if they had violated a group-wide supervisory duty under section 130(1) OWiG. It was, however, never clear what supervisory duties parent companies or their representatives actually have towards a subsidiary or its personnel. Thus, imposing fines on parent companies was challenging. The *Bundeskartellamt* and other observers increasingly feared that this gap was, or might become, a significant obstacle to effective competition law enforcement in Germany.

The German legislator closed the gap with the Ninth Amendment to the GWB, which entered into force on 9 June 2017.[32] Today, section 81(3a) GWB enables the competition authorities to impose fines also on legal persons and associations of persons who are part of the same 'undertaking' (i.e. the corporate group) and have exercised, during the time of the infringement, a 'decisive influence' over the conduct of the legal person or group of persons whose representatives infringed the competition laws. Moreover, section 81(3b) and (3c) GWB now allow for the imposition of fines on the corporate offender's legal or economic successors.

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[27] Bundeskartellamt, Activity Report 2011/12 (note 25), p. 32.

[28] Bundeskartellamt, Activity Report 2013/14 – BT-Drs. 18/5210 (DE), p. 13.

[29] BGH, Judgment of 9 May 2017 – 1 StR 265/16, WuW 2017, 456, 457 (DE), para. 118.

[30] BGH (note 29), para. 118.

[31] J. Brauneck, Bußgeldmindernde Compliance durch den BGH bei Wettbewerbsverstößen gegen den Willen der EU?, WuW 2018, pp. 181–188; A. Eufinger, Verbandsgeldbuße nach section 30 OWiG und Compliance, ZIP 2018, pp. 615–624; A. Eufinger, Das Judikat des BGH zur Compliance und seine Bedeutung für die kartellrechtliche Verbandsgeldbuße, NZG 2018, pp. 327–330; A. Baur and P. M. Holle, Compliance-Defense bei der Bußgeldbemessung und ihre Einpassung in das gesellschaftsrechtliche Pflichtenprogramm, NZG 2018, pp. 14–19.

[32] For an overview see C. Koenig, Digital Economy, Antitrust Damages, and More: The 9th Amendment to the German Competition Act, Eur. Comp. & Reg. L. Rev. (CoRe), 2017, pp. 261–265.

In referring to the parent company's decisive influence, the amended German law closely follows the example of EU competition law. In its legislative proposal, the Federal Government (*Bundesregierung*) extensively refers to the relevant cases decided by the EU courts.[33] There is, however, one significant difference: the government explicitly states in the materials that standard rules of evidence shall apply, i.e. there are no presumptions that the parent company is in a position to exercise a decisive influence or that it has in fact exercised its influence.[34] However, it is questionable whether the absence of a presumption makes a difference. The government itself concedes that German courts routinely, and legitimately, base their convictions on common sense deductions.[35] For instance, the BGH has held that a 100% shareholding indicates a single economic entity in terms of section 81(4)(3) GWB.[36] Furthermore, the BGH has held that even an 89% shareholding may support a trial court's conviction that the parent and the subsidiary form a single entity if they have concluded a profit transfer agreement.[37]

It should be noted that section 81(3a) GWB breaks with the general rule of sections 30, 130 OWiG that legal persons and associations of persons may only be liable if their own representatives violate their duties, either by actively committing a regulatory offence or crime or by omitting to take necessary supervisory measures. In contrast, parent company liability under section 81(3a) GWB only requires that a representative *of a subsidiary* commit a competition law offence. This mechanism arguably leaves little room for a compliance defence on the part of the parent company. Since it is not a requirement that the parent company or its representatives acted intentionally or negligently, it will probably not help much to argue that they did not. The parent company may be able to show that its representatives did not violate group-wide supervisory duties according to section 130(1) OWiG.[38] However, as explained above, the unambiguous intention of creating section 81(3a) GWB was to allow for parent company liability even in those cases where a violation of supervisory duties cannot be established.

Section 81(3a) GWB is not supposed to affect the calculation of fines, which has been based on group turnover already since 2007.[39] Instead, the provision allows the competition authorities to hold a parent company and a subsidiary jointly and severally liable for fines, which they could previously only impose on the subsidiary.

[33]Legislative proposal by the Federal Government for the Ninth Amendment to the GWB – BT-Drs. 18/10207 (DE), pp. 89–90.

[34]Legislative proposal (note 33), p. 90.

[35]Legislative proposal (note 33), p. 90.

[36]BGH, Judgment of 26 February 2013 – KRB 20/12 (DE), para. 71.

[37]BGH (note 36), para. 71.

[38]Bundeskartellamt, Activity Report 2013/14 (note 28), p. 13.

[39]Section 81(4)(3) GWB and above, at note 16.

#### 5.3.1.3 Associations of Undertakings

Associations of undertakings may be fined under section 81(1)–(3) GWB in conjunction with sections 9, 30 or sections 9, 130 OWiG if they possess legal capacity and if one of their representatives commits a competition law offence or violates a corresponding supervisory duty. The competition authorities typically fine associations in addition to undertakings if the formers' staff facilitated the competition law offence or somehow aided in its implementation.[40] However, under German law, associations are not strictly liable for competition law offences committed by their members. Instead, their responsibility must be established in accordance with the general principles of the OWiG, i.e. associations are only liable for acts of their own management and representatives.

Consequently, competition authorities calculate an association's fine based on the association's turnover rather than the turnover of its members.[41] Furthermore, there is no statutory obligation for member undertakings to contribute to the payment of the fine, and competition authorities are neither competent to impose any form of secondary liability.[42] If they want to impose liability on member undertakings, the competition authorities must show that representatives of these undertakings were involved in the offence.

### 5.3.2 Representatives

German competition authorities may also fine certain individuals. To allow for individual liability with regard to organisational offences, section 9 OWiG extends the 'special personal characteristics' of organisations to their representatives, i.e. individual employees in managing roles. It thus becomes possible to treat these individuals as 'undertakings' in terms of competition law and hold them liable for the competition law infringement they committed or could have prevented if they had better supervised their subordinates. There are no other sanctions (such as disqualification orders) for regulatory offences.[43]

The upper limit of fines to be imposed on individuals for intentional offences is EUR 1 million, section 81(4)(1) GWB. According to section 17(2) OWiG, negligent offences may be fined up to EUR 500,000. The competition authorities set the exact amount of the fine in accordance with section 17(3) OWiG. According to this provision, the authorities shall take into account the offender's culpability, which

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[40]For an example see Bundeskartellamt, Decision of 20 January 2003 – B10-206/01.

[41]D. Wagener and I. Oest, section 18 Ordnungswidrigkeitenverfahren. In: Kamann, Ohlhoff and Völcker (eds), Kartellverfahren und Kartellprozess, C.H. Beck 2017, p. 538, para. 123.

[42]Cf., however, Article 13(2) of the Proposal for a EU Directive to empower the competition authorities of the Member States to be more effective enforcers and to ensure the proper functioning of the internal market, COM(2017) 142 final.

[43]Criminal courts may, however, disqualify individuals for committing the bid-rigging offence, see below, after note 60.

is reflected by the significance of the offence and the extent of the offender's participation,[44] as well as the offender's financial circumstances.

Individuals may also benefit from immunity or fine reductions. It is clearly stated in the 2006 Leniency Programme that it also applies to natural persons.[45] Furthermore, the *Bundeskartellamt* has announced that it treats any application filed by an authorised representative on behalf of an undertaking as an application also on behalf of the undertaking's employees who participated in the competition law offence.[46] However, the competition authorities cannot provide individuals with immunity from criminal prosecution if said individuals have committed a crime, such as the criminal bid-rigging offence according to section 298 StGB.[47]

The *Bundeskartellamt* claims to make widespread use of the possibility to fine individuals in addition to undertakings. Between 2008 and 2016, the authority fined managers and other representatives in 333 cases.[48] The lowest fine imposed was EUR 500; the highest fine was EUR 800,000.[49] The total amount of all fines imposed on individuals in the aforementioned time frame was EUR 24.4 million.[50] To name just one prominent example, in 2013/14, the *Bundeskartellamt* fined 14 individuals an approximate amount of EUR 3.6 million for having participated in a beer breweries cartel.[51]

There are no empirical studies on the deterrent effect of individual penalties in Germany, but the *Bundeskartellamt* considers them a helpful addition to its toolbox.[52] In particular, the authority has even argued against the further criminalisation of anticompetitive conduct, claiming that its current approach of routinely imposing fines on individuals provides the responsible managers with sufficient incentives.[53] The *Bundeskartellamt* may also worry, however, about the higher evidentiary burden of criminal trials and the adverse effects to its leniency programme. At least in its current form, German criminal law does not allow for an equally effective protection of cooperating individuals.

### 5.3.3 Procedure

Competition authorities can impose regulatory fines under section 81(1)–(3) GWB in administrative proceedings, i.e. the initial fining decision in Germany does not

[44]Bundeskartellamt, Activity Report 2015/16 – BT-Drs. 18/12760 (DE), p. 34.
[45]Leniency Notice (note 13), para. 1.
[46]Leniency Notice (note 13), para. 17.
[47]See Sect. 5.4.2 below.
[48]Bundeskartellamt, Activity Report 2015/16 (note 44), p. 33.
[49]Bundeskartellamt, Activity Report 2015/16 (note 44), p. 34.
[50]Bundeskartellamt, Activity Report 2015/16 (note 44), p. 33.
[51]Bundeskartellamt, Case Report of 2 April 2014 – B10-105/11 (DE), p. 3.
[52]Bundeskartellamt, Activity Report 2015/16 (note 44), p. 33–34.
[53]Bundeskartellamt, Activity Report 2015/16 (note 44), p. 33–34.

require a trial. This holds not only for fines addressed to undertakings but also for those addressed to individuals. However, once an addressee files an objection against the authority's decision, according to section 67 OWiG, the procedure will be turned into a quasi-criminal trial. The competition authority's accusation will now be defended by the competent public prosecution office, section 69(4) OWiG, and the trial will largely be conducted under the rules of the German Code of Criminal Procedure, the StPO. The competition authority is allowed to participate as an observer, which enables it to ask questions and make statements, section 82a(1) GWB. The Higher Regional Courts (*Oberlandesgerichte*) are exclusively competent to hear these cases according to section 83(1) GWB. Rather than only reviewing the competition authority's initial decision, the competent court has to conduct a full hearing of evidence and deliver a *de novo* decision based on its own full conviction. This includes setting the amount of the fine. Decisions by the Higher Regional Courts can be appealed to the BGH, which only reviews questions of law, section 84 GWB.

## 5.4 Criminal Fines/Imprisonment

The GWB is not a criminal statute and accordingly does not provide for criminal penalties. However, certain types of anticompetitive conduct may constitute crimes under the German Criminal Code, the StGB. In particular, section 298 StGB prohibits the restriction of competition through agreements in the context of procurement procedures (bid-rigging offence). Furthermore, bid rigging and similar anticompetitive collusions may constitute fraud under section 263 StGB.[54] However, since corporate criminal liability does not exist in Germany, only individuals can commit such crimes. Their organisations may only be fined vicariously according to section 30 OWiG.[55]

### 5.4.1 Bid-Rigging Offence

Anyone who, upon a call to tender goods or commercial services, enters a bid based on an unlawful agreement whose purpose is to cause the organiser of the procurement procedure to accept a particular bid, shall be punished by imprisonment not exceeding five years or a criminal fine, according to section 298 StGB. The provision applies not only to representatives but also to ordinary employees. The German legislator singled out this so-called bid-rigging offence as the only competition crime under German law in 1997 as part of an effort to strengthen public prosecutors in their fight against corruption.[56]

[54] BGH, Judgment of 8 January 1992 – 2 StR 102/91, BGHSt 38, 186 (DE) – Rheinausbau I.

[55] See Sect. 5.3.1 above.

[56] Law on Fighting Corruption (*Korruptionsbekämpfungsgesetz*) of 13 August 1997, Federal Law Gazette – BGBl I (DE), p. 2038.

Bid rigging is relatively infrequent compared to many other crimes, but it plays a significant role in German competition law enforcement.[57] Crime statistics compiled by the German federal police report 77 clear-cut cases in 2016 and 94 such cases in 2015.[58] It must, however, be noted that these numbers reflect cases as they were passed on from police authorities to public prosecutors. Thus, they should not be equated with actual convictions. Yet a survey conducted by *Florian Wagner-von Papp* counts 297 convictions and 42 suspended prison sentences between 1998 and 2013, only referring to cases in which bid rigging was the most serious offence.[59]

Sentencing is primarily based on the offender's guilt but also takes into account expectations about the offender's future life in society, section 46(1) StGB. More specifically, courts will look, in particular, at the motives and goals behind the crime, the offender's attitude in committing the crime, the consequences caused by the crime and the offender's responsibility for them, the offender's prior history and personal circumstances and the offender's conduct after the crime. Almost all cases end with a criminal fine or a suspended prison sentence.[60] The court may also disqualify the convict from engaging in his or her profession, section 70 StGB.[61]

*Wagner-von Papp* has argued that one of the main problems of the German bid-rigging offence is that it is rarely talked about publicly and thus barely known.[62] Neither the public prosecution offices nor the competition authorities inform openly about cases completed and sentences imposed, primarily out of concern for privacy rights.[63] It is argued that this lack of transparency harms deterrence as it probably leads individuals to underestimate the probability of conviction. Furthermore, the low level of public attention for the bid-rigging offence may contribute to the cautious sentencing.

### 5.4.2 Procedure

Competition authorities and public prosecutors work closely together in investigating bid-rigging offences. Once a competition authority has indication

[57] See also the extensive reports by F. Wagner-von Papp, Compliance and Individual Sanctions in the Enforcement of Competition Law. In: Paha (ed), Competition Law Compliance Programmes, Springer 2016, pp. 149–158; What if all Bid Riggers Went to Prison and Nobody Noticed? Criminal Antitrust Law Enforcement in Germany. In: Beaton-Wells and Ezrachi (eds), Criminalising Cartels – Critical Studies of an International Regulatory Movement, Hart 2011, pp. 157–182.

[58] Federal Criminal Police Office (*Bundeskriminalamt*), Crime statistics, 2016, vol. 4 (DE), p. 128.

[59] F. Wagner-von Papp (note 57, 2016), p. 155.

[60] F. Wagner-von Papp (note 57, 2011), p. 182.

[61] Disqualification is not available as a sanction for regulatory offences, see above, before note 43.

[62] F. Wagner-von Papp (note 46, 2016), p. 156.

[63] Note that the BGH and other courts have held consistently that judgments must be published at least in anonymous form, e.g. Judgment of 5 April 2017 – IV AR (VZ) 2/16. Moreover, the Bundeskartellamt must inform about decisions imposing regulatory fines, section 53(5) GWB. However, this provision does not apply to bid-rigging cases pursued by public prosecutors.

that a crime may have been committed, it must transfer the case to the competent public prosecution office according to section 41 OWiG. Public prosecutors will then investigate and possibly try the case, without any formal participation of the competition authority. On the other hand, since the criminal investigation only targets individuals, the competition authority remains exclusively competent to pursue the case against the undertakings, section 82 GWB. Thus, in a typical bid-rigging case, there will be at least two separate proceedings: a criminal proceeding conducted by public prosecutors and a quasi-criminal regulatory offence proceeding conducted by a competition authority.

This dualism poses a risk for individuals since the *Bundeskartellamt's* leniency programme is only applicable to regulatory offences. Leniency may also be available in German criminal law according to section 46b StGB, but this provision is not applicable to the section 298 StGB bid-rigging offence. What is more, public prosecutors are required under section 152(2) StPO to indict all prosecutable offences (*principle of mandatory prosecution*). Thus, neither public prosecutors nor competition authorities can protect individuals from criminal prosecution even if those individuals voluntarily reveal the criminal act and cooperate with the authorities. Their cooperation may positively affect sentencing, but this decision is reserved to the court and can only be made at the end of a trial.

The aforementioned dilemma may reduce the leniency programme's effectiveness since corporate representatives might undermine their undertaking's cooperativeness in fear of personal liability. The *Bundeskartellamt* has thus taken a critical stance towards the further criminalisation of competition law offences. Interestingly, the planned EU Directive on Empowering National Competition Authorities is supposed to require the Member States to protect cooperating individuals also from criminal liability.[64] The German *Bundesrat* has reacted with a rather sceptical statement, claiming that full immunity for individuals may only be justified where these individuals, among other things, make a *significant* contribution to uncovering the offence.[65]

## 5.5 Damages

Besides being regulatory (or, in the case of bid rigging, criminal) offences, competition law infringements are also torts. In line with Directive 2014/104, section 33a GWB allows for damages to be claimed from anyone who intentionally or negligently infringes a substantive provision of the GWB or Articles 101 or 102 TFEU. Section 33a GWB is the primary cause of action for any victim harmed by a

[64] Article 22 of the Proposal for a EU Directive to empower the competition authorities of the Member States to be more effective enforcers and to ensure the proper functioning of the internal market, COM(2017) 142 final.

[65] Deutscher Bundesrat, Statement on the Proposal for a EU Directive to empower the competition authorities of the Member States – BR-Drs. 247/1/17 (12 May 2017, DE), p. 2.

competition law offence. In case of multiple offenders (e.g. an undertaking and the responsible employees), the additional question arises whether they may claim contribution or indemnification from each other. Thus, this section distinguishes between the *external* liability of liable parties towards victims and their *internal* liability towards each other.

Private antitrust suits are gaining momentum in Germany. The Bundeskartellamt reported 360 newly registered cases in 2015/16 and estimated the number of out-of-court settlements to be significant as well.[66] Notable cases concern products as different as trucks, rails, escalators, elevators and beer.

### 5.5.1 External Liability

Section 33a GWB does not specify the parties liable but instead refers to anyone infringing a substantive provision of the GWB or Article 101 or 102 TFEU. Since these provisions, on the other hand, refer to 'undertakings' and 'associations of undertakings', it is generally recognised that companies can be liable for damages under section 33a GWB. It should, however, be noted that German tort law does not hold employers strictly liable for all wrongs committed by their employees in the course of their employment (*respondeat superior*). Instead, according to section 31 of the German Civil Code (*Bürgerliches Gesetzbuch*—henceforth BGB), organisations are strictly liable only for unlawful conduct by their representatives, i.e. employees in managing roles. For torts committed by ordinary employees, organisations are liable under section 831(1) BGB only if they cannot show that their representatives selected those employees with due care and supervised them properly.

Since the substantive provisions of the GWB and Articles 101 and 102 TFEU refer to 'undertakings' and 'associations of undertakings', one might conclude that liability attaches to everyone who is part of an undertaking or association of undertakings that infringes upon competition law. Given the EU courts' broad understanding of undertakings as economic entities,[67] this could arguably include individuals and parent companies.

However, individual liability for antitrust damages is much debated in Germany. Lower courts, in particular, tend to be sceptical about the EU approach of defining undertakings as economic entities and attaching liability to all of their constituents. It is argued that individuals may be treated as undertakings if they operate their own

[66]Bundeskartellamt, Activity Report 2015/16 (note 44), p. 41.

[67]The courts have held that the concept of an undertaking 'must be understood as covering an economic entity, even if, from a legal perspective, that unit is made up of a number of natural and legal persons', see e.g. ECJ, case C-597/13 P, *Total SA v European Commission*, ECLI:EU:C:2015:613, para. 33; ECJ, joined cases C-231/11 P to C-233 P, *European Commission v Siemens AG Österreich and Others and Siemens Transmission & Distribution Ltd and Others v European Commission*, ECLI:EU:C:2014:256, para. 43; ECJ, case C-217/05, *Confederación Española de Empresarios de Estaciones de Servicio v Compañía Española de Petróleos SA.*, ECLI:EU:C:2006:784, para. 40.

businesses but that they cannot be liable for damages under section 33a GWB if they are merely employed.[68] A provision like section 9 OWiG, which extends the 'special personal characteristics' of organisations to their representatives for the purpose of establishing regulatory offences, does not exist in German tort law. Thus, it is argued that individuals cannot be liable as tortfeasors[69] but only as instigators or accessories according to section 830(2) BGB.[70] On the other hand, scholars have argued that section 9 OWiG should be applied by analogy also in cases concerning damages.[71] Others recognise the possibility of individual liability without explaining how it could be constructed.[72]

Similar discussions surround the issue of parent company liability.[73] The Regional Court (*Landgericht*) of Berlin[74] and the Regional Court of Düsseldorf[75] both have rejected the idea of holding parent companies liable for damages only because of their influence over a subsidiary whose representatives committed or did not prevent a competition law infringement. They rightly claim that German tort law does not allow for assigning liability to 'economic entities' as it is done under EU competition law with regard to administrative fines. Consequently, they argue that legal persons or associations of persons may only be liable under German tort law if

[68]See, e.g., F.S. Hack, Vorstandsverantwortlichkeit bei Kartellrechtsverstößen, Peter Lang 2012, pp. 86–104. A less restrictive approach is taken by M. Twele, Die Haftung des Vorstands für Kartellrechtsverstöße, Nomos 2013, pp. 95–102.

[69]F.S. Hack (note 68), pp. 102–104.

[70]For an example, see Higher Regional Court of Düsseldorf, Judgement of 13 November 2013 – VI-U 11/13 Kart (DE), NZKart 2014, pp. 68–72.

[71]E. Rehbinder, section 33 GWB. In: Loewenheim et al. (eds), Kartellrecht, 3rd ed, C.H. Beck 2016, para. 39; V. Emmerich, section 33 GWB. In: Immenga and Mestmäcker, Wettbewerbsrecht, vol. 2, 5th ed, C.H. Beck 2014, para. 31; M. Dreher, Die persönliche Außenhaftung von Geschäftsleitern auf Schadensersatz bei Kartellrechtsverstößen, WuW 2009, pp. 133–143; opposed by E. Eden, Haften Geschäftsführer persönlich gegenüber Kartellgeschädigten auf Schadensersatz? WuW 2014, pp. 792, 794–796; E. Eden, Persönliche Schadensersatzhaftung von Managern gegenüber Kartellgeschädigten, Nomos 2013, pp. 116–147.

[72]G. Meeßen, Der Anspruch auf Schadensersatz bei Verstößen gegen EU-Kartellrecht – Konturen eines Europäischen Kartelldeliktsrechts?, Mohr Siebeck 2011, pp. 367–375.

[73]See, e.g., M. Klotz, Zivilrechtliche Verantwortlichkeit der Konzernmuttergesellschaft für Kartellverstöße ihrer Töchter?, WuW 2017, pp. 226–229; S. Wachs, Faktische Übernahme des wirtschaftlichen Unternehmensbegriffs für die Passivlegitimation bei Follow-on-Klagen?, WuW 2017, pp. 2–8; C. König, Deliktshaftung von Konzernmuttergesellschaften, AcP 2017, pp. 611, 640–648; T. Weck, Ein Gebot der Fairness – Übernahme des EU-Unternehmensbegriffs ins deutsche Kartellrecht, WuW 2016, pp. 404–410; R.T. Wieser, Wirtschaftliche Einheiten im europäischen Kartellprivatrecht, Societas 2017; M.-N. Blome, Rechtsträgerprinzip und wirtschaftliche Einheit, Nomos 2016, pp. 275–373; M. Klotz, Wirtschaftliche Einheit und Konzernhaftung im Kartellzivilrecht, Carl Heymanns 2016, pp. 53–216; K. Leffrang, Die Passivlegitimation im kartellrechtlichen Schadensersatzprozess, Dr. Kovač 2014, pp. 113–260; and the sources cited in note 76 below.

[74]Regional Court of Berlin, Judgment of 6 August 2013 – 16 O 193/11 Kart (DE), paras. 79–82.

[75]Regional Court of Düsseldorf, Judgment of 8 September 2016 – 37 O 27/11 Kart (DE), paras. 182–190.

*their* representatives were involved in the wrongdoing or violated their supervisory duties, sections 31, 830, 831 BGB. The new section 81(3a) GWB has not changed the law on damages since it is expressly limited to regulatory offences. It is argued, however, that Directive 2014/104, by using the term 'undertaking' and thus incorporating the EU courts' economic entity doctrine, requires Member States to allow for parent company liability.[76] This would mean that, due to the primacy principle, section 33a GWB had to be interpreted accordingly.

In line with Directive 2014/104, German competition law in conjunction with the general law on damages embodies a right to full compensation. The amount of damages to be awarded is not affected by prior disgorgement orders or fines. On the other hand, punitive damages do not exist in Germany. Thus, victims will receive full compensation for the harm they suffered (as established in court), but no more or less.

### 5.5.2 Internal Liability

Multiple tortfeasors are jointly and severally liable, i.e. each of them is bound to compensate for the harm in full but altogether victims cannot claim more than full compensation. A tortfeasor who has compensated a victim may claim contribution from any other tortfeasor according to their relative responsibilities.[77] The relevant rules can be found in section 33d GWB, as well as sections 840(1), 421, 426 BGB. The former provision has transposed Article 11 of Directive 2014/104 into German law.

Related but different problems occur when organisations seek reimbursement from their representatives or when, the other way around, representatives seek indemnification or liability insurance from their organisations. In general, ordinary employees and managers may be liable to their organisations if they intentionally or negligently violate their contractual duties. Furthermore, section 43(2) of the Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*—henceforth GmbHG) and section 93(2) of the Stock Corporation Act (*Aktiengesetz*—henceforth AktG) create special causes of action for breaches of managerial duties. Under these and other provisions of German corporate law, managers are considered to hold a so-called duty of legality (*Legalitätspflicht*), which means that they owe their organisations to comply with the law. A manager violating a statutory rule of conduct, such as the prohibitions of competition law,

[76] E. Rehbinder (note 71), para. 42; Monopolies Commission, 20th Main Report: A competitive order for the financial markets (9 July 2014, DE), para. 951; A. Petrasincu, Kartellschadensersatz nach dem Referentenentwurf der 9. GWB Novelle, WuW 2016, pp. 330–31; T. Makatsch and A.S. Mir, Die neue EU-Richtlinie zu Kartellschadensersatzklagen – Angst vor der eigenen 'Courage'?, EuZW 2015, pp. 7, 8; C. Kersting, Die neue Richtlinie zur privaten Rechtsdurchsetzung im Kartellrecht, WuW 2014, pp. 564, 565–66.

[77] For illustrations, see C. Koenig, Making contribution work: the liability of privileged and non-privileged injurers in EU competition law, 14(1) Eur. Comp. J. (2018), pp. 110–128.

therefore generally also breaches his or her duty of care towards the organisation and may be liable to pay damages.

However, the Regional Labour Court (*Landesarbeitsgericht*) of Düsseldorf has held that a corporation may not claim reimbursement for a fine that was specifically addressed to that corporation.[78] The case followed a decision by the *Bundeskartellamt*, which had fined four undertakings for having participated in a rail cartel but had not imposed a fine on any individual manager or employee.[79] The labour court argued that allowing for reimbursement would undermine the *Bundeskartellamt's* decision since it had to be assumed that the competition authority wilfully abstained from fining individuals.[80] Furthermore, the possibility of reimbursement alone would threaten the purpose of corporate fines under section 81 (1)–(3) GWB, which is to make undertakings comply with the competition rules (general and specific deterrence).[81] The Federal Labour Court (*Bundesarbeitsgericht*) later found that these are questions of competition law, rather than labour law, and found the lower court to lack competence.[82] The case will now be decided again, this time by the antitrust division of the Regional Court of Dortmund.[83]

The scholarly debate has produced all kinds of proposals for solving the problem, ranging from full immunity to full managerial liability.[84] An intermediate position is to allow for reimbursement but limit the extent of liability to EUR 1 million, which is the maximum amount an individual could be fined under section 81(4)(1) GWB. By way of comparison: the claimant in the rail cartel case seeks to reimburse EUR 191 million plus interest.

It is thus far not considered unlawful to indemnify managers from fines and damages, which they may be required to pay because of wrongs committing during the course of their employment. In particular, directors and officers liability insurance (D&O) is common in larger German undertakings. However, if the relevant company is a stock corporation, section 93(2)(3) AktG requires the insurance policy to provide for a deductible of 10% of the damage but not exceeding 150% of the

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[78] Regional Labour Court of Düsseldorf, Partial Judgment of 20 January 2015 – 16 Sa 459/14 (DE).

[79] Bundeskartellamt, Case Report of 14 December 2012 – B12-11/11 (DE).

[80] Regional Labour Court of Düsseldorf (note 75), paras. 160–161 (DE).

[81] Regional Labour Court of Düsseldorf (note 75), paras. 166–167 (DE).

[82] Federal Labour Court, Judgment of 29 June 2017 – 8 AZR 189/15 (DE).

[83] Regional Labour Court of Düsseldorf, Order of 29 January 2018 – 14 Sa 591/17 (DE).

[84] See, e.g., H-J. Bunte, Regress gegen Mitarbeiter bei kartellrechtlichen Unternehmensgeldbußen, NJW 2018, pp. 123–126; M. K. Thelen, Geschäftsleiterhaftung für Kartellrechtsverstöße – Umweg über Erfurt, WuW 2018, pp. 17–19; K. Labusga, Die Ersatzfähigkeit von Unternehmensgeldbußen im Innenregress gegen verantwortliche Vorstandsmitglieder, VersR 2017, pp. 394–402; M. Zimmer and M. Walther, Kartellanten und Böllerwerfer – Bußgeldregress beim Verursacher, BB 2017, pp. 629–632; F.C. Haus, A. Herb and M. Kempermann, Wenn Kartellanten nachkarten – haften Geschäftsleiter und Arbeitnehmer für Geldbußen und Schadensersatz?, ZWH 2016, pp. 7–16; C. Kersting, Organhaftung für Kartellbußgelder, ZIP 2016, pp. 1266–1275; B. Grunewald, Die Abwälzung von Bußgeldern, Verbands- und Vertragsstrafen im Wege des Regresses, NZG 2016, pp. 1121–1124.

manager's annual fixed remuneration. Moreover, D&O policies typically exclude intentional violations of the law and provide for liability caps, which depend on the size of the undertaking and the position, as well as the responsibilities, of the respective manager.

## 5.6 Reform

The focus so far was on describing the law in Germany as it stands. However, a number of recent reform discussions seem also worth mentioning. The *Bundeskartellamt* has taken the initiative to explore a shift from the quasi-criminal system of imposing and reviewing fines under the OWiG/StPO towards a purely administrative system as known from EU competition law and other Member States. Furthermore, there are debates in Germany about the further criminalisation of competition law and the introduction of genuine corporate criminal liability.

### 5.6.1 Purely Administrative System

The *Bundeskartellamt* has expressed discontent with the procedure for reviewing regulatory fines under sections 67–78 OWiG. The competition authority criticises that it is time-consuming and costly to comply with all requirements of the German Code of Criminal Procedure, the StPO, and argues that efficiency-enhancing alterations could be made without unduly curtailing the appellants' procedural rights. In particular, the *Bundeskartellamt* considers the criminal law principle of orality (*Mündlichkeitsgrundsatz*) inappropriate for competition law proceedings, in which case files are often full of complex, highly technical details. The authority has set up a study group for exploring the modernisation of procedural law in 2013. An interim report was published in 2015.[85] In this document, the *Bundeskartellamt* recommends to replace the current fining and review system—including a *de novo* decision by the competent court based on a full hearing of evidence, if an objection is filed against the original decision—with a purely administrative system such as the one established under Regulation 1/2003.[86] Fines would then be administrative in nature, criminal law principles would not apply and decisions would only be reviewed for legal or discretionary mistakes (including the adequacy of the amount of the fine). The duality of administrative and regulatory offence proceedings could be set aside, and the competition authorities could defend their cases instead of passing them on to public prosecutors, who are less experienced with competition law.

[85]Bundeskartellamt, Interim Report concerning the Study Group on Cartel Sanctions (12 January 2015, DE), published in NZKart 2015, pp. 2–14 with accompanying statements by members of the study group.

[86]Bundeskartellamt, Interim Report (note 85), pp. 6–8.

### 5.6.2 Individual Criminal Liability

It is much debated in Germany whether more competition law offences should be made crimes.[87] Horizontal price fixing is the most obvious candidate as it does not seem to matter from the perspective of competition policy whether prices are fixed for public procurement procedures (a crime according to section 298 StGB) or for open markets. One of the main proponents of criminalisation is the Monopolies Commission (*Monopolkommission*), an advisory body to the Federal Government. It has published a long report in 2015, in which it called for the criminalisation of hardcore offences in order to enhance the incentives for individual managers and employees.[88] The *Bundeskartellamt* has opposed the recommendation, emphasising instead the effectiveness of its fining policy towards individuals.[89] The competition authority fears that a further criminalisation would complicate investigations and procedures without adding much to deterrence. Additionally, more severe penalties for individuals could threaten the effectiveness of the *Bundeskartellamt's* leniency programme, unless the German legislator would decide to enable public prosecutors to offer similar protections also in criminal law proceedings. Accordingly, the Ministers of Justice of the sixteen German *Länder* have decided in November 2016 not to pursue a further criminalisation of competition law offences.[90] Instead, they want to evaluate an extension of the existing criminal leniency programme, section 46b StGB, to cases concerning the bid-rigging offence under section 298 StGB.[91]

### 5.6.3 Corporate Criminal Liability

Another recent reform discussion concerns the question whether German law should recognise corporate criminal liability.[92] So far, only individuals are capable of

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[87]W. Frenz, Ausreichendes Kartellbußgeldsystem – keine Notwendigkeit von Haftstrafen, WRP 2006, pp. 367–374; M. Dreher, Wider die Kriminalisierung des Kartellrechts, WuW 2011, pp. 232–244; F. Wagner-von Papp, Kriminalisierung von Kartellen, WuW 2010, pp. 268–282; J. Biermann, Neubestimmung des deutschen und europäischen Kartellsanktionenrechts: Reformüberlegungen, Determinanten und Perspektiven einer Kriminalisierung von Verstößen gegen das Kartellrecht, ZWeR 2007, pp. 1–48; M. Achenbach, Strafrechtlicher Schutz des Wettbewerbs?, Peter Lang 2009; B.A. Federmann, Kriminalstrafen im Kartellrecht, Nomos 2006; C. Kohlhoff, Kartellstrafrecht und Kollektivstrafe, Duncker & Humblot 2003; and the sources cited in note 57 above.

[88]Monopolies Commission, Special Report 72: Criminal sanctions for cartel infringements (27 October 2015, DE).

[89]Bundeskartellamt, Activity Report 2015/16 (note 44), p. 13.

[90]Bundeskartellamt, Activity Report 2015/16 (note 44), pp. 13, 33.

[91]Bundeskartellamt, Activity Report 2015/16 (note 44), pp. 13, 33.

[92]G. Ortmann, Für ein Unternehmensstrafrecht – Sechs Thesen, sieben Fragen, eine Nachbemerkung, NZWiSt 2017, pp. 241–251; G. Wagner, Sinn und Unsinn der Unternehmensstrafe, ZGR 2016, pp. 112–152; G. Dannecker and C. Dannecker, Europäische und verfassungsrechtliche Vorgaben für das materielle und formelle Unternehmensstrafrecht, NZWiSt

committing crimes, whereas organisations may only be fined vicariously under section 30 OWiG for crimes and regulatory offences committed by their representatives. However, in particular in light of recent corporate scandals (Siemens, Volkswagen), it is frequently argued that the OWiG's system of quasi-criminal sanctions for undertakings is insufficient. One problem is that section 30 OWiG requires the identification of a specific individual who committed the offence, leaving no room for genuine organisational offences committed through the interaction of several people. Moreover, section 30 OWiG is rarely applied in practice, which may be due to the fact that administrative authorities make a discretionary decision on whether or not to prosecute these cases (*Opportunitätsprinzip*), section 47(1) OWiG. Recognising corporate criminal liability could create new ways of holding corporations responsible for crimes and regulatory offences committed within the course of their businesses. The state of North Rhine-Westphalia presented a proposal for a law on corporate criminal liability in 2013,[93] but the draft never entered the legislative process due to little prospect of success. In 2017, scholars at the University of Cologne published another proposal.[94] Furthermore, Germany's governing parties have announced in their coalition agreement of February 2018 that they seek to amend the law on corporate sanctions by extending the principle of mandatory prosecution and allowing for higher fines (although this might not concern competition law fines that may already exceed the ordinary statutory cap of EUR 10 million).[95] Moreover, the parties announced to create 'new sanctions', though they did not become any more specific.[96]

## 5.7 Conclusion

Directive 2014/104 and the Ninth Amendment to the GWB, the German Competition Act, have answered many questions about private enforcement of competition law. However, they did not bring clarity with respect to one of the most fundamental issues: who is liable for competition law infringements? In particular, it is currently much debated in Germany whether victims may claim damages from individual managers, ordinary employees or parent companies. It is also unclear whether organisations may claim reimbursement from their managers and employees for fines that were specifically addressed to the undertaking.

2016, pp. 162–177; J. Wessing, Braucht Deutschland ein Unternehmensstrafrecht?, ZWH 2012, pp. 301–305; J.C. Dous, Strafrechtliche Verantwortlichkeit in Unternehmen, Peter Lang 2009; S. Kindler, Das Unternehmen als haftender Täter, Nomos 2008.

[93] Entwurf eines Gesetzes zur Einführung der strafrechtlichen Verantwortlichkeit von Unternehmen und sonstigen Verbänden (2013).

[94] M. Henssler, E. Hoven, M. Kubiciel and T. Weigend, Kölner Entwurf eines Verbandssanktionengesetzes (2017).

[95] CDU, CSU and SPD, Coalition agreement (7 February 2018, DE), p. 126.

[96] CDU, CSU and SPD (note 95), p. 126.

The competition authorities' fining powers are more clearly defined. Corporate offenders, as well as individual managers, could be fined even before the amendment of the GWB and the authorities make frequent use of their respective powers. The new section 81(3a) GWB now clarifies that fines may also be imposed on parent companies even if their representatives were not involved in the infringement. Section 81(3b) and (3c) GWB further extends liability to legal and economic successors. Thus, major gaps in public enforcement have been closed.

Reform proposals include a shift from the quasi-criminal system of imposing and reviewing fines towards a purely administrative system in which the position of competition authorities would be strengthened and courts would only review administrative decisions for legal and discretionary mistakes. It has also been argued that more competition law offences should be made crimes, but important voices such as the *Bundeskartellamt* have opposed this idea. It will be interesting to see how the new Federal Government will go about its announcement to amend the law on corporate sanctions. This project does not only concern competition law offences, but it may yield new ideas for approaching corporate liability and is likely to affect the other reform discussions.

# 6 Hong Kong

Catrina Lam, Cherry Xu, and Tommy Cheung

## 6.1 Overview and Summary

This Report has been prepared to assist the International Rapporteur in reporting to the LIDC congress in Budapest in October 2018. It has been prepared in accordance with the Directives and Instructions issued by LIDC, which was last amended in October 2016. It follows the structure of the questions for National Reporters that were issued in February 2018.

Hong Kong is in the early stages of the implementation of its Competition Ordinance (Cap 619 of the Laws of Hong Kong) (the '**Competition Ordinance**'), which commenced full operation recently on 14 December 2015. Some aspects of the competition regime are still developing, and it may be premature to make comments and observations at the moment. This Report seeks to summarise the current legal position and comment on the way forward as regards competition law in Hong Kong.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_6

## 6.2 The Legal Position in Hong Kong

### 6.2.1 The Statutory Regime

The Competition Ordinance commenced full operation on 14 December 2015. The statutory regime makes explicit the rules on failure to comply with requirements or prohibitions,[1] destroying or falsifying documents,[2] obstruction of search,[3] providing false or misleading documents or information,[4] application by the Competition Commission for pecuniary penalty,[5] imposition of pecuniary penalty by the Competition Tribunal,[6] orders of the Competition Tribunal,[7] disqualification order,[8] provision of false information,[9] assistance provided by employees to the Competition Commission,[10] obstruction by specified persons[11] and offences by bodies corporate and partners.[12] The Competition Commission has issued guidelines in relation to the statutory regime.[13]

### 6.2.2 Criminal Offences

There are no prohibitions similar to those in the Competition Ordinance under criminal law. However, traditionally, the prosecution has made use of the Prevention of Bribery Ordinance (Cap 201 of the Laws of Hong Kong) to deal with anti-competitive conduct, if bribery could be proved.

### 6.2.3 Types of Sanctions

Generally, the types of sanctions that can be applied in business-related breaches of law include monetary sanctions targeting corporate and individual misconduct, reparatory sanctions, custodial sanctions and disqualification.

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[1] Section 52 of the Competition Ordinance.

[2] Section 53 of the Competition Ordinance.

[3] Section 54 of the Competition Ordinance.

[4] Section 55 of the Competition Ordinance.

[5] Section 92 of the Competition Ordinance.

[6] Section 93 of the Competition Ordinance.

[7] Section 94 of the Competition Ordinance

[8] Section 101 of the Competition Ordinance.

[9] Section 172 of the Competition Ordinance.

[10] Section 173 of the Competition Ordinance.

[11] Section 174 of the Competition Ordinance.

[12] Section 175 of the Competition Ordinance.

[13] The guidelines could be accessed at https://www.compcomm.hk/en/legislation_guidance/guidance/guidance.html. Accessed 28 August 2018.

For breaches of the Competition Ordinance, these four types of sanctions can also be applied. However, there are no custodial sanctions for contraventions of competition rules.

With regard to corporations, sanctions can be imposed if the Competition Ordinance is contravened during investigation and enforcement stages.[14]

With regard to the imposition of punitive damages by a civil court, such damages could be imposed in addition to compensatory damages under Hong Kong laws. However, there is so far no decision in Hong Kong specifically on its availability in competition cases or when elements of competition law are involved.

### 6.2.4 Goals of Imposing Competition Law Sanctions

There is no definition of the goals of imposing competition law sanctions in statute. There is also no case law at this stage. However, the goal is apparently set out in the Legislative Council Brief dated 2 July 2010, which states the following: 'The objective of the Bill is to prohibit and deter "undertakings" in all sectors from adopting abusive or other anti-competitive conduct which has the object or effect of preventing, restricting and distorting competition in Hong Kong.' Therefore, the primary goal of the imposition of competition law sanctions in Hong Kong is deterrence.

There is no data available at this stage as regards the impact of such goals on the nature and magnitude of the sanction to be imposed since the Competition Ordinance only commenced full operation recently on 14 December 2015.

### 6.2.5 Determination and Calculation of Sanctions

There are rules in the Competition Ordinance that govern the determination of the amount and length of sanctions. Section 93(2) of the Competition Ordinance provides that in determining the amount of pecuniary penalty, the Tribunal must have regard to the following matters:

i. the nature and extent of the conduct that constitutes the contravention;
ii. the loss or damage, if any, caused by the conduct;
iii. the circumstance in which the conduct took place; and
iv. whether the person has previously been found by the Tribunal to have contravened the Competition Ordinance.

Further, section 93(3) of the Competition Ordinance provides that the amount of a pecuniary penalty imposed under section 93 in relation to conduct that constitutes a single contravention may not exceed in total the following:

[14]See sections 52, 53, 54, 55, 172, 173 and 174 of the Competition Ordinance.

i. subject to the provision below, 10% of the turnover of the undertaking concerned for each year in which the contravention occurred; or
ii. if the contravention occurred in more than 3 years, 10% of the turnover of the undertaking concerned for the 3 years in which the contravention occurred that saw the highest, second highest and third highest turnovers.

It is worth noting that section 93(2) specifies that the provision therein does not limit the matters that the Tribunal may have regard to. As such, there is nothing to prevent the Tribunal from taking into account other factors, such as other sanctions imposed by other bodies against the same person for the same conduct, when imposing sanctions.

Similarly, the existence of a genuine compliance programme is not one of the factors listed in section 93(2). At the moment, the Tribunal has yet to lay down guidelines for setting the level of fines under section 93. But section 93 is modelled after Australian competition law, and hence Australian cases may be instructive in this regard. In Australia, the existence of a compliance culture as evidenced by a compliance programme is one of the factors for the court to consider when setting fines.[15] As such, it is reasonable to expect that the Hong Kong Tribunal would find it a relevant factor in determining fines.

As regards the effect that the imposition of a sanction on an employee will have on the sanction that will be imposed on an employer, or vice-versa, there is currently no local case law. However, since the relevant part of the Competition Ordinance is modelled after its Australian counterpart, Australian case law on this aspect may serve as useful guidance when the issue comes before the Hong Kong Tribunal. According to Australian case law, the court may have regard to the following factors when setting fines:

i. the size of the contravening company;
ii. the degree of the market power it has;
iii. the seniority of the managers involved;
iv. the contravening company's financial position, etc.[16]

Thus, it remains to be seen whether the Hong Kong Tribunal would find that the imposition of a sanction on an employee would affect the sanction that will be imposed on an employer or vice-versa.

[15]See among others, *Re Trade Practices Commission v CSR Limited* (1991) 13 ATPR 41-076, at section 42, and Australian Competition and Consumer Commission v Visy Industries Holdings Pty Limited (No 3) (2007) FCA 1617, at section 303.

[16]See: among others, *Re Trade Practices Commission v CSR Limited* (1991) 13 ATPR 41-076, at section 42, and *Australian Competition and Consumer Commission v Visy Industries Holdings Pty Limited (No 3)* (2007) FCA 1617, at section 303.

### 6.2.6 Enforcement

The dominant enforcement mechanism in Hong Kong is administrative. Enforcement is carried out by the Competition Commission, and financial penalty can be imposed by the Competition Tribunal upon an application by the Commission.

Apart from the general rules in the Competition Ordinance, competition in the telecommunication sector is governed by the Telecommunications Ordinance (Cap 106 of the Laws of Hong Kong) (the '**Telecommunications Ordinance**'), section 7Q of which prohibits exploitative conduct, which is essentially anti-competitive conduct. Enforcement of the Telecommunications Ordinance is undertaken by the Office of the Telecommunications Authority (OFTA), the statutory body responsible for regulating the telecommunications industry in Hong Kong. The OFTA is responsible for investigating industry complaints, determining whether there has been a breach of the competition rules in the Telecommunications Ordinance and meting out penalties for such a breach.

### 6.2.7 Parent Liability

In Hong Kong, a parent company can be held liable and be fined for the wrongdoing of its subsidiary. There are two possible ways for the imposition of liability.

First, without establishing direct involvement in an infringement, a parent company can be found liable for the actions of its subsidiary on the basis that they are a single economic entity. At the moment, there is no case law on when a parent company and its subsidiary would be considered a single economic entity. But since the concept of 'undertaking' under the Competition Ordinance is borrowed from the EU legislation, it may be instructive to have regard to the EU case law, which has laid down a series of rules on parental liability. In short, a parent company can be considered a single economic entity with its subsidiary if it exercises 'decisive influence' over the subsidiary.[17] The Competition Commission's Guideline on the First Conduct Rule also summarises the relevant rules:

i. The term undertaking refers to any entity, regardless of its legal status or the way in which it is financed, that is engaged in an economic activity.[18]
ii. To determine whether two or more entities are a single undertaking, the Commission will assess whether the relevant entities constitute a single economic unit.[19]
iii. Whether or not separate entities form a single economic unit depends on the facts of the case. Generally, if entity A exercises decisive influence over the

[17] See, for example, CFI, case T-112/05, Akzo Nobel NV & others v Commission, ECR 2007 II-5049.

[18] See also the definition in section 2(1) of the Competition Ordinance.

[19] Section 2.6 of the Guideline.

> commercial policy of entity B, whether through legal or de facto control, then the Commission will consider A and B a single economic unit and part of the same undertaking.[20]

Second, even if the parent company is not found to be a single economic unity with the subsidiary, the parent company may still be found to be 'involved' in the contravention of a competition rule under section 91 of the Competition Ordinance. Section 93 of the Competition Ordinance allows the Tribunal to impose financial penalties on persons involved in such a contravention.

However, there is no presumption for the imputation of liability to the parent. But it remains to be seen whether the Tribunal would introduce a rebuttable presumption similar to the one under EU law, i.e. a parent is presumed to exercise decisive influence over a wholly owned subsidiary.[21]

### 6.2.8 Association of Undertakings

Where undertakings, as members of an association of undertakings, make or give effect to a decision of the association of undertakings that has the object or effect of harming competition, the undertakings and the association may both incur liability under the Competition Ordinance.[22]

This is because, although section 6 of the Competition Ordinance only applies to undertakings, an association of undertakings may itself be an undertaking to the extent that it is engaged in economic activity and may, in that capacity, contravene the First Conduct Rule by making or giving effect to an agreement or engaging in a concerted practice that has the object or effect of harming competition.[23]

With regard to sanctions, the ability of the association to request financial contribution from its member undertakings will depend on the relationship between them (e.g. the terms of membership agreement). The Tribunal may also impose accessory liability in persons involved in a contravention of the Competition Ordinance pursuant to section 93 of the Competition Ordinance.

### 6.2.9 Individual Sanctions on CEOs or Employees

Individual sanctions on CEOs or other senior employees are allowed under Hong Kong laws with regard to criminal, administrative and civil sanctions. However, given that the Competition Ordinance only commenced full operation recently on

[20] Section 2.8 of the Guideline.

[21] See CFI, case T-112/05, Akzo Nobel NV & others v Commission, ECR 2007 II-5049.

[22] Section 2.37 of the Competition Commission's Guideline on the First Conduct Rule.

[23] Footnote 15 of the Competition Commission's Guideline on the First Conduct Rule.

14 December 2015, there is no data available as to the extent to which these sanctions have been used or the effectiveness of these sanctions.

Insofar as criminal sanction is concerned, section 175 of the Competition Ordinance provides:

> (1) If a person by whom an offence under this Ordinance is committed is a body corporate, and it is proved that the offence—
>
> (a) was committed with the consent or connivance of a director, manager, company secretary or other person concerned in the management of the body corporate; or
>
> (b) was attributable to any neglect or omission on the part of a director, manager, company secretary or other person concerned in the management of the body corporate,
>
> *the director, manager, company secretary or other person also commits the offence.*
>
> (2) If a person by whom an offence under this Ordinance is committed is a partner in a partnership, and it is proved that the offence—
>
> (a) was committed with the consent or connivance of any other partner or any person concerned in the management of the partnership; or
>
> (b) was attributable to any neglect or omission on the part of any other partner or any person concerned in the management of the partnership,
>
> the partner or the person concerned in the management of the partnership also commits the offence.

These sanctions are criminal in nature. However, since the undertaking would only commit offence during the investigation and/or enforcement stages, an individual's liability is also limited to these stages. In other words, since the undertaking does not commit any criminal offence by engaging in anti-competitive conduct, an individual would not commit any criminal offence in that regard either.

Insofar as administrative and/or civil sanctions are concerned, section 91 of the Competition Ordinance provides:

> A reference in this Part to a person being involved in a contravention of a competition rule means a person who—
>
> (a) attempts to contravene the rule;
> (b) aids, abets, counsels or procures any other person to contravene the rule;
> (c) induces or attempts to induce any other person, whether by threats or promises or otherwise, to contravene the rule;
> (d) is in any way, directly or indirectly, knowingly concerned in or a party to the contravention of the rule; or
> (e) conspires with any other person to contravene the rule.

The above wordings are wide enough to cover CEOs or other senior employees.

Under section 92, the Competition Commission may apply for pecuniary penalty and impose that on 'a person' who has contravened a competition rule.

Under section 93, the Competition Tribunal may impose pecuniary penalty on 'a person' who has contravened a competition rule. As per section 93(3), the amount of a pecuniary penalty imposed under subsection (1) in relation to conduct that constitutes a single contravention may not exceed in total, (a) subject to paragraph (b), 10% of the turnover of the undertaking concerned for each year in which the contravention occurred or, (b) if the contravention occurred in more than 3 years, 10% of the turnover of the undertaking concerned for the 3 years in which the contravention occurred that saw the highest, second highest and third highest turnover.

Under section 94 and Schedule 3, the Competition Tribunal could impose other orders on 'a person', and these include the following:

(a) a declaration that a person has contravened a competition rule;
(b) an order restraining or prohibiting a person from engaging in any conduct that constitutes the contravention or the person's involvement in the contravention;
(c) an order requiring a person who has contravened a competition rule or been involved in the contravention to do any act or thing, including the taking of steps for the purpose of restoring the parties to any transaction to the position in which they were before the transaction was entered into;
(d) an order restraining or prohibiting a person from acquiring, disposing of or otherwise dealing with any property specified in the order;
(e) an order requiring a person to dispose of such operations, assets or shares of any undertaking specified in the order, in the manner specified in the order;
(f) an order appointing a person to administer the property of another person;
(g) an order prohibiting a person from making or giving effect to an agreement;
(h) an order requiring the parties to an agreement (the making or giving effect to which constitutes the contravention of the competition rules) to modify or terminate that agreement;
(i) an order declaring any agreement (the making or giving effect to which constitutes the contravention of the competition rules) to be void or voidable to the extent specified in the order;
(j) an order prohibiting the withholding from any person of—
    (i) any goods or services; or
    (ii) any orders for any such goods or services;
(k) an order requiring a person to pay damages to any person who has suffered loss or damage as a result of the contravention;
(l) an order prohibiting requiring as a condition of the supply of goods or services to any person—
    (i) the buying of any goods or services;
    (ii) the making of any payment in respect of goods or services other than the goods or services supplied; or
    (iii) the doing of any other similar thing or the refraining from doing of anything mentioned in subparagraph (i) or (ii) or any other similar thing;
(m) an order prohibiting a person from exercising any right to vote that is exercisable by virtue of the holding of any shares, stock or securities;
(n) an order requiring that any person or class of person be given access to goods, facilities or services specified in the order on the terms specified in the order;
(o) an order requiring that any person or class of person be given the right to use goods, facilities or services specified in the order on the terms specified in the order;

(p) an order requiring any person to pay to the Government or to any other specified person, as the Tribunal considers appropriate, an amount not exceeding the amount of any profit gained or loss avoided by that person as a result of the contravention; or
(q) for the purpose of securing compliance with any other order made under this section, an order requiring any person who has contravened or been involved in the contravention to do or refrain from doing anything specified in the order.

Further, under sections 101–102, the Competition Tribunal could make a disqualification order against the director if the director has contravened a competition rule and that the director is unfit to be concerned in the management of a company.

Theoretically, individual sanctions can be imposed for the infringement of any competition law rules. However, pursuant to section 82 of the Competition Ordinance, if the Commission has reasonable cause to believe that a contravention of the first conduct rule has occurred and the contravention does not involve serious anti-competitive conduct, the Commission must, before bringing proceedings in the Tribunal against the undertaking whose conduct is alleged to constitute the contravention, issue a warning notice to the undertaking, which gives the undertaking an opportunity to cease the contravening conduct within a warning period. Under section 82(4) of the Competition Ordinance, the Commission may only bring proceedings against the undertaking if, after the expiry of the warning period:

(a) the Commission has reasonable cause to believe that the contravening conduct continues after the expiry; or
(b) the Commission has reasonable cause to believe that the contravening undertaking repeats the contravening conduct after the expiry.

With regard to the link between the decision sanctioning the undertaking and the one addressed to the individual person in the case of a successful legal challenge before a court, it remains to be seen whether the Tribunal will require a decision sanctioning the undertaking for a contravention of a competition rule before the Tribunal imposes sanctions on the individuals involved in the contravention. In particular, section 92 of the Competition Ordinance allows the Commission (if it considers appropriate to do so) to apply to the Tribunal for a pecuniary penalty to be imposed on any person it has reasonable cause to believe has contravened a competition rule or has been involved in a contravention of a competition rule. Section 91 defines the persons 'involved' in a contravention of a competition rule.

This part of the Competition Ordinance is modelled after its Australian counterpart. In *ACCC v Black on White Pty Ltd & Ors* [2001] FCA 187, it was held that the grant of relief against an individual employee under section 75B of the Trade Practices Act 1974 (the predecessor of section 75B of the Competition & Consumer Act 2010, on which section 91 of the Competition Ordinance is modelled) was dependent on a 'finding' on the basis of evidence proved to the satisfaction of the Court that his corporate employer had engaged in conduct in contravention of the relevant section. However, such a finding can be made on the basis of evidence in the proceedings brought against the employee, in the absence of a pre-existing decision imposing sanction on the corporate employer.

It remains to be seen whether the Tribunal in Hong Kong will follow the approach of the Australian court.

### 6.2.10 Leniency Agreements

Section 80 of the Competition Ordinance provides that the Commission may make a leniency agreement with a person that it will not bring or continue proceedings in the Competition Tribunal for a pecuniary penalty in exchange for the person's cooperation in an investigation or in proceedings under the Competition Ordinance.

The Commission has published a Leniency Policy for Undertakings Engaged in Cartel Conduct (the 'Policy'). In other words, there is no published leniency policy for other kinds of contravention of a competition rule, though the Commission may still make an agreement in respect of conduct not involving cartel conduct depending on the circumstances of the case.

The Policy applies to undertakings and does not apply to leniency agreements between the Commission and persons who are not undertakings. The Commission will consider case by case whether it is appropriate to exercise its enforcement discretion towards such persons. However, in the Policy, it is stated that where an undertaking enters into a leniency agreement under the Policy, the leniency ordinarily extends to any current officer or employee of the undertaking where the relevant individuals provide complete, truthful and continuous cooperation with the Commission throughout its investigation and any ensuing proceedings. The leniency will also extend under the same conditions to any former officer or employee and any current or former agents of the undertaking specifically named in the leniency agreement. Where the undertaking is a partnership, leniency will ordinarily extend to any partner in the partnership and any employee of the partnership where the relevant individuals provide complete, truthful and continuous cooperation with the Commission throughout its investigation and any ensuing proceedings.

### 6.2.11 Indirect Financial Liability of Directors and Employees

A company might be able to sue directors and senior employees for breach of fiduciary duties owed to the company. However, there is no data available at this stage as regards the relevant court cases since the Competition Ordinance only commenced full operation recently on 14 December 2015. Further, there is no data available as to whether director insurance policies would cover this type of liability.

## 6.3 The Way Forward, Need for Change?

Hong Kong is still in the early stages of the implementation of its Competition Ordinance, and hence it is premature for us to make concrete suggestions to improve the existing system. That said, progress has been made in Hong Kong. Notably, the evidential part of the trial in the first enforcement action under the Competition Ordinance has recently completed, and we would be in a better position to provide suggestions on the effectiveness of the law (including sanctions aspects) after the judgment is handed down.

By way of general observation, it is anticipated that the Legislature in Hong Kong would not focus on sanctions in the early stages. Rather, it is reported that the legislators would focus the discussion on introducing a cross-sector merger control regime and reviewing the level of the *de minimis* exception under paragraph 5 of Schedule 1 to the Competition Ordinance. It is reported that evaluation would be made after 3 years of its commencement. It remains to be seen whether it is necessary to put the topic of sanction on the discussion table of the Legislature in Hong Kong and, if so, when would be a suitable time.

# Hungary

# 7

Zoltán Marosi and Hargita Árpád

## 7.1 Stock Taking[1]

### 7.1.1 The Rules

The Competition Act governs the main aspects of Hungarian competition law, including the statutory provisions concerning competition law sanctions. The HCA issued its new Antitrust Fine Notice in 2017 as a guideline on the method of the setting of fines in antitrust cases.

In addition to the Hungarian competition law prohibitions, criminal law (Article 420 of the Criminal Code) also sanctions bid rigging in public procurement and concession procedures and treats these as a criminal offence. There are, however, no criminal sanctions for any other types of cartel activities in Hungary. While the general administrative antitrust sanctions focus on the behaviour of the companies under investigation, the personal reach of the criminal law provisions is different as their subject is the individuals (i.e. management, employees) committing the criminal offence. We note that theoretically, criminal sanctions can also be imposed on the

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_7

companies themselves (there is a separate law in Hungary for the criminal sanctions applicable for companies); however, these are rather exceptionally applied.

As regards the classification of the available sanctioning tools in Hungary, the following types of sanctions are applied for breaches of antitrust rules:

- the monetary sanction (substantive fines and procedural fines on undertakings),
- the reparatory sanction (private law consequences on undertakings),
- the imprisonment sanction (criminal law consequences on individuals and, in rare cases, companies), and
- the disqualification sanction (public procurement law consequence on undertakings).

The primary sanctions are *monetary sanctions* (administrative fines) imposed on companies by the HCA. Under the Competition Act, the maximum amount of the administrative fine is 10% of the net turnover of the undertaking concerned in the business year preceding the decision of the HCA, and in practice, the amount of the fine is generally calculated by considering the principles contained in the Antitrust Fine Notice.

While no fine can be imposed on individuals for their participation in the antitrust infringement, a procedural fine may be imposed both on companies and on individuals in case of obstruction of the investigation. Under the Competition Act, a procedural fine may be imposed on companies or on individuals if their conduct has the object or result of delaying the investigation or preventing the establishment of the facts of the case. The maximum procedural fine in case of companies is one per cent of the net turnover in the preceding business year and five hundred thousand forints for individuals (i.e. natural persons not qualifying as undertakings).

The potential legal consequences of private antitrust litigation and damages actions serve as *reparatory sanctions* in Hungary. The Competition Act declares that any agreement or other arrangements violating the prohibition of anticompetitive conducts are null and void under Hungarian law, and the most important consequence of such nullity is the restitution of the original state. Antitrust damages actions are based on the general rules of Hungarian law governing liability for damages caused in non-contractual situations and relationships. The applicable rules for damages actions are in line with the Antitrust Damages Directive,[2] which was implemented into the Competition Act in December 2016 and which entered into force on 15 January 2017. The Hungarian regime applies the full compensation system, which ensures that any natural or legal person that has suffered harm caused by an infringement of competition law is able to claim and to obtain full compensation for that harm.

[2]Directive 2014/104 of the European Parliament and of the Council of 26 November 2014 on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union, OJ 2014 L 349, p. 1.

In terms of criminal law infringement, individuals may face a *sanction of imprisonment* for the breach of the cartel offence (only in relation to bid rigging in public procurement and concession procedures): the term of such imprisonment may be up to 5 years.

As regards the *disqualification sanction*, it is important to note that according to the Competition Act, the HCA is not entitled to apply this type of sanction in its antitrust investigations. Nonetheless, the Public Procurement Act declares that a company is automatically excluded from public procurement procedures as a bidder or subcontractor if a fine was imposed on it by the HCA for committing cartel infringement (see details below at Sect. 7.1.2). Moreover, companies are also excluded from public procurement if their management was found guilty in the last 5 years for committing bid rigging in public procurement and concession procedures by the criminal court until the dispensation of criminal record. The disqualification is applied by the contracting authority in the course of the public procurement procedure.

As stated above, criminal sanctions can be imposed also on the companies themselves; however, they are rather exceptionally applied consequences by the criminal courts (see details below at Sect. 7.1.2).

It is also worth mentioning that punitive damages claims are not available in the Hungarian civil law regime. By virtue of the *ne bis in idem* principle, no one can be held liable twice or more for the same conduct, i.e. the damages actions cannot aim to penalise the infringing party; the only objective can be to restore the situation that existed before the damage had been caused. The sole objective of civil court proceedings could only be to compensate the entire loss suffered by the claimant by granting damages. The Hungarian full compensation doctrine also excludes overcompensation by means of punitive or multiple damages.

The goals of imposing competition law sanctions are defined in several layers. Competition Act subsection 3 Article 87 states that when imposing the fines, all aspects of the unlawful behaviour has to be considered, including among others culpability, repeat offence or frequency.

National courts frequently have to review decisions of the national competition authority, which also means the review of fines. In these cases, the courts have also defined the goals of competition law sanctions.

The Hungarian Constitutional Court confirmed in case No. IV/01697/2013 that similarly to EU law, repeating violation of competition rules can lead to fines aiming both deterrence and punishment. Especially, individual deterrence might substantiate higher fines for repeat offenders. The national competition authority can take into account the frequency of an infringement in general and also repeat violations by the same undertaking. The goal of a competition law sanction is to sanction undertakings violating the law and also to deter other undertakings in general.

The HCA issues notices about the setting of fines. The current Antitrust Notice states that it has no binding effect. According to the notice, the aim of a fine is to deter undertakings from committing unfair business practices and to safeguard fair economic competition; therefore, apart from retribution, both individual and general deterrence are considered. This can only be achieved if the fine is substantial for the undertaking.

As described under the previous point, retribution is the primary goal of competition law fines, but deterrence is also an important factor when setting the level of fines. Compensation is not a direct goal of fines; however, if there is active remedy (e.g. compensation) by an undertaking for those who suffered harm, that can be taken into account[3] and deducted from the fine.[4]

When setting the level of fine, the HCA in the decisions usually considers the following factors, in the following order (see, e.g., Decision No. Vj/2-205/2015):

– gravity of the infringement (type of the infringement and its effect),
– duration,
– aggravating and mitigating circumstances,
– possibility of repeated infringements,
– benefits achieved due to the infringement,
– deterrence,
– maximum level of fine,
– reduction due to leniency policy or commitments,
– possible difficulties of payments by the undertaking.

The HCA states that 'it pays particular attention in order to impose fines that have adequate retention (deterrent) effect'.[5] Later on, the HCA elaborates further on deterrence.[6] Taking into account the deterrent effect can lead to the increase or reduction of the fine.

The HCA is following the court case law both in the fining notices and in decisions. The Competition Authority takes the following two factors repeatedly into consideration when setting the level of fines: the level of threat to economic competition by the behaviour and the scope and magnitude of harm caused to final buyers.

The HCA is always very clear on the method when setting the level of fines and refers to the notice. So both the fining notice and the individual decisions are coherent and reflect the above-mentioned goals.

## 7.1.2 Determination and Calculation of Sanctions

### 7.1.2.1 Rules on How to Determine the Amount of Fines

Hungarian competition law essentially deals with the determination of sanctions in two sources of law. The first source is the Competition Act, which naturally contains hard rules, which are legally binding for every undertaking and for the HCA. The second source is the Antitrust Fine Notice of the HCA. The Antitrust Fine Notice is soft law. In addition, there are other acts that contain hard rules on competition

[3]See paras 67-69 of the Antitrust Notice.

[4]See e.g. also Decision No. Vj/11-334/2014 or Decision No. Vj/37-303/2014).

[5]See para 51 of the Antitrust Notice.

[6]See paras 51-52 of the Antitrust Notice.

sanctions, such as the Public Procurement Act, the Criminal Code and the Legal Persons Criminality Act. In the present chapter, first we examine the hard rules, and thereafter we move to the soft rules.

#### 7.1.2.1.1 Competition Act

The sanction system of the Competition Act focuses on the infringing undertakings (companies (and possibly individuals, if they are regarded as undertakings) under procedure or, in general, parties) and contains several provisions in connection with the determination of the amount of the fine and in connection with the rules of the maximum fine.

Under the Competition Act, the amount of the fine is established considering all the circumstances of the case, in particular the gravity of the infringement, the duration of the infringing situation, the benefit gained by the infringement, the market position of the infringing party, the imputability of the conduct, the cooperation of the undertaking during the proceeding and the repetition and frequency of the infringement.

In connection with the maximum fine, it should be taken into account that the fine shall not exceed ten per cent of the net turnover achieved in the business year preceding that in which the decision is adopted. The relevant turnover is that of the undertaking or the group of undertakings that is specified in the decision and of whom the undertaking on which the fine is imposed is a member (sub-section 3 Article 78 of the Competition Act). The fine imposed on associations of undertakings shall not exceed 10% of the net turnover in the preceding business year of all undertakings that are members of such association (sub-section ab Article 78 of the Competition Act).

In determining the maximum amount of the fine, the net turnover shall be determined relying on annual accounts or simplified annual accounts for the business year preceding that in which the decision is adopted (sub-section 2 Article 78 of the Competition Act).

#### 7.1.2.1.2 Public Procurement Act

Article 62 (1) n) of the Public Procurement Act contains a sanction automatically excluding a company from any public procurement procedure as a tenderer, subcontractor or organisation participating in the certification of suitability in case of a competition law infringement committed by such company.

More precisely, the sanction applies if the infringement relates to Article 11 of the Competition Act or Article 101 of the TFEU and is established in a final and enforceable decision of the HCA, delivered within the previous 3 years or, in the event of a review of the decision of the HCA, by a final court ruling and the HCA also imposed a fine or if such infringement of law committed by the tenderer was established by another competition authority or court within the previous 3 years and at the same time the tenderer was ordered to pay a fine. The second limb of this rule (the imposition of a fine) serves to avoid that leniency applicants are caught by this sanction.

In addition, Article 62 (i) o) of the Public Procurement Act also covers a situation where the contracting authority itself discovers an infringement of Article 11 of the Competition Act or Article 101 of the TFEU in the court of a given tendering procedure: in such a case, the tenderer may also be excluded, unless the given tenderer itself reports the infringement to the contracting authority and submits a leniency application to the HCA at the same time.

We note that the Public Procurement Act also contains a general provision, which may also possibly be applicable to other competition law infringements: it states that the exclusion also applies if a company has committed a crime connected with his commercial or professional activity, established by court judgment having the force of res judicata given not more than 3 years ago. The relationship between these rules is somewhat unclear. This issue was (in case of a very similar provision in the earlier Public Procurement Act and an earlier provision specifically applicable for anticompetitive agreements (similar to Article 62 (1) n) in the current Public Procurement Act) subject to a preliminary reference judgment by the Court of Justice of the European Union in case C-470/13,[7] but the court merely held that the relevant Hungarian rules were not contrary to EU law.

In addition, Article 62 (1) ag) of the Public Procurement Act also automatically excludes from participation any person who was found guilty of infringement of the cartel offence as contained in the Criminal Code. Furthermore, if such a natural person acts or acted as an officer of a company, then the given company itself shall also be excluded from participation (Article 62 (2) of the Public Procurement Act).[8]

#### 7.1.2.1.3 Criminal Code

While the Competition Act focuses on infringing companies, the Criminal Code focuses on natural persons (e.g. managers, employees) as perpetrators.

Pursuant to Article 420 of the Criminal Code, any person who enters into an agreement aiming to manipulate the outcome of an open or restricted procedure held in connection with a public procurement procedure or an activity that is subject to a concession contract by fixing the prices, charges or any other term of the contract, or for the division of the market, or takes part in any other concerted practices resulting in the restraint of trade is guilty of felony punishable by imprisonment between one and 5 years.

The Criminal Code also provides for the imposition of penalties on any person who participates in the decision-making process of an association of companies, a public body, a grouping or similar organisation and in adopting any decision that has the capacity to restrain competition aiming to manipulate the outcome of an open or closed public procurement procedure or an activity that is subject to a concession contract.

[7] CJEU, *Generali-Providencia Biztosító Zrt v Közbeszerzési Hatóság Közbeszerzési Döntőbizottság*, ECLI:EU:C:2014:2469.

[8] It's worth mentioning that in 2015 the concept of self-cleaning was introduced in the Public Procurement Act. Self-cleaning makes it possible for an economic operator subject to one or more grounds for exclusion to take measures to prevent or reduce the risk of the recurrence of the activity constituting its ground for exclusion. In case the measures taken by the economic operators concerned comply with the conditions stipulated by the Public Procurement Act (e.g. paying compensation) and are sufficient to demonstrate the reliability of the economic operator, then the exclusion will no longer apply.

Importantly, the above behaviour constitutes a criminal act when the result—namely the restriction of the competition—has occurred, that is the effect has to materialise.

The above offence can be committed not only by the manager or executive officers of the company but also by any employee of the company. Thus, the perpetrator of the offence may be the company's executive officer, member, member of the supervisory board, employee or their agent, provided that their criminal law culpability (i.e. intent or negligence) in respect of the offence can be established.

With regard to sanctionable persons, the Criminal Code imposes sanctions only on natural persons. Thus, legal entities cannot be held liable for the restriction of competition on the basis of the Criminal Code (but see the special case for the Legal Persons Criminality Act below).

It follows that criminal sanctions may arise from public procurement procedures and concession-related activities only, but such cartels and anticompetitive acts may then result in multiple sanctions. The same anticompetitive act can be punished at the level of the company by competition law and public procurement law (see above) and at the level of the manager committing such act by criminal law resulting in imprisonment or criminal sanctions (such as confiscation of personal assets). In this respect, it is noteworthy that the establishment of the infringement by the HCA (with a fine imposed) will automatically result in the disqualification of the company from public procurement procedures (see the Public Procurement Act section above) but will not automatically result in the application of criminal sanctions (although the determination of the HCA may ease the evidentiary process in the criminal case).

#### 7.1.2.1.4 Legal Persons Criminality Act

While the criminalisation of certain anticompetitive conducts generally bears sanctions for individuals only, this Act allows the application of legal measures to companies in case the conduct specified in Article 420 of the Criminal Code was performed with the aim of providing a pecuniary advantage for the company in question or was committed with the assistance of the company and by (1) the executive officer, employee, board member of the company or the agent of any of these persons or (2) the owner or employee in connection with the business of the company while the performance of the supervisory rights of the executive officer or board members may have prevented the crime or (3) the company achieved a pecuniary advantage and the executive officer, employee, board member of the company was aware of the crime.

Under the Legal Persons Criminality Act, the following measures can be taken against companies: liquidation of the company, restriction of the activity of the company and/or financial penalty (equal to three times the pecuniary advantage achieved or planned to be achieved) imposed on the company. It is important to emphasise that criminal sanction against a company can be imposed exclusively in the frame of the criminal procedure against individuals.

The criminal law measures applicable to companies raise concerns due to potential violation of the prohibition of double assessment of crimes. Nevertheless, there is no precedent in the Hungarian case law as to the practical application to these rules;

thus, it is not possible to assess whether HCA fines imposed on the company would reduce or, in any event, affect the sanction to be imposed on the company under criminal laws.

#### 7.1.2.1.5 Antitrust Fine Notice

Given the limited depth of the rules set out in the Competition Act and to provide guidance on its case law and application of the relevant rules, the HCA has issued the Antitrust Fine Notice setting out the rules on how to determine the amount of the fine. While the HCA usually imposes fines on the basis of the Antitrust Fine Notice in force, there have been cases where the HCA has decided to disapply its Antitrust Fine Notice and determine the amount of the fine on the basis of more general rules of Article 78 of the Competition Act. However, such derogation from the Antitrust Fine Notice needs to be justified by detailed reasoning in the decision of the HCA. This practice has been upheld by the courts.[9] On the basis of the above, it can be stated that the Antitrust Fine Notice is part of soft law, especially since under the express provisions of the Competition Act, such notices are not binding and their sole purpose is to increase the predictability of the application of the law (Article 36 of the Competition Act). Nevertheless, the Hungarian Supreme Court accepted that—similarly to notices issued by the European Commission under EU law—such notices create legitimate expectations for the parties concerned, and therefore they bind the HCA in particular to the extent that any deviations should be duly reasoned.[10]

The currently applicable Antitrust Fine Notice of the HCA was issued on 19 December 2017 and contains stricter rules for the determination of the level of fines than HCA's previous fine notice dated from 2012 in order to strengthen the preventive and deterrent role of the fines.[11] The issuance of the Antitrust Fine Notice was justified by criticism to the 10% rate applied to the basic amount of the fine by the HCA in its Antitrust Fine Notice, which was considered low in international comparisons. Accordingly, following the practice of the Commission and the majority of European countries, the ceiling of the rate applied to the basic amount has been increased to 30%.

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[9]See the chapter III. of decision no. 1392/B/2007 of the Hungarian Constitutional Court. The HCA thus complies with the requirement of the Supreme Court that states, '*in individual cases - in case of special circumstances - the individual decision may differ from the notice, however, a detailed justification must be given which indicates the circumstance that justifies the derogation*'. (See order No. Kfv.II.37.497/2010/14. of the Supreme Court (VJ/102/2004.).)

In addition, in decision No. Vj/8-1751/2012 (the so-called Bank Data case, which is an ongoing case) the HCA decided not to apply the Antitrust Fine Notice, given that neither the EU or the Hungarian case-law were entirely clear as regards the infringement at the beginning of the initial period of the conduct.

[10]See Supreme Court judgment No. Kfv.III.37.582/2016/16. brought in case No. Vj-74/2011 (FX loan repayment).

[11]HCA: The main changes of the Antitrust Fine Notice and its background http://www.gvh.hu/gvh/elemzesek/vitaanyagok/nyilv_konz_antitroszt_fogyasztos/a_birsagkozlemeny_fobb_valtozasai_es_hatteruk.html.

Pursuant to the Antitrust Fine Notice, the determination of the fine by the HCA is a multi-stage procedure. First, the HCA determines the basic amount, which is based on the relevant turnover, and later this sum can be modified in several steps. Based on such turnover, basic amount of the fine can be calculated by multiplying the relevant turnover and the ratio of the gravity of the infringement. Subsequently, the HCA examines the mitigating and aggravating circumstances of the case.

A notable feature of the Antitrust Fine Notice is that pursuant to the Antitrust Fine Notice, the existence of a genuine compliance programme may serve as a mitigating circumstance. Preliminary (*ex ante*, i.e. taken before the initiation of the competition proceedings) and subsequent (*ex post*, i.e. taken after the initiation of the competition proceedings) compliance efforts and programmes are also considered when the HCA sets the fine; however, the HCA attributes greater importance to pre-compliance programmes that were already in force before the initiation of competition procedure. At the same time, an additional mitigating circumstance may be allowed if no high-ranking corporate executives participated in the infringement. In such cases, the HCA might reduce the fine by up to 7% depending on the preliminary compliance programme. Moreover, if the undertaking provides evidence of significant added value in the context of the compliance programme, the reduction of the fine may increase to 10%. In addition, the HCA may reward a commitment to develop and implement a subsequent compliance programme by the HCA with a reduction of fine of up to 5% if such commitment is taken in conjunction with a leniency policy or settlement procedure and/or is in parallel with proactive reparation.

#### 7.1.2.2 Enforcement

As far as the enforcement of competition rules are concerned, administrative enforcement is dominant in the current Hungarian regulatory system. Competition law rules are enforced in an administrative procedure conducted by the HCA since 1991. Approximately 5–10 antitrust decisions (cartel and abuse of dominance cases) are handed down by the HCA every year.[12]

As for criminal law, Hungary introduced individual criminal liability for bid rigging in public procurement or concession procedures in September 2005 (see in detail above at Sect. 7.1.2). These crimes are investigated in a criminal procedure, but so far enforcement has been relatively scarce and we are aware of only one final and binding conviction for the breach of the cartel offence (see in detail below at Chap. 6).

As for private enforcement, civil law procedures are also not very common. Damages are also available for injuries suffered as a result of antitrust (cartel) actions (generally speaking, they are classified as torts in civil law).[13] Although the

[12]Nevertheless, this administrative procedure based on the criteria set down by the ECHR in the Bendenoun (Bendenoun v France, 24 February 1994 18 EHRR 54.) case, (in particular the rules on data collection and sanctions) may be considered criminal in nature, or at least quasi criminal. This conclusion is supported by the Menarini (A. Menarini Diagnostics S.R.L. v Italy [(43509/08), 27 September 2011.]) and the decision of the Hungarian Constitutional Court (30/2014. (IX. 30.)).

[13]As prescribed by Articles 6:518 and 6:519 of the new Civil Code.

legislator introduced the so called 10% presumption in 2009[14] to foster private enforcement (whereby it is presumed that a hardcore cartel has the effect of increasing the price of the cartelised product/service with 10%), still such actions have been relatively rare in Hungary for the time being.

As for competition-law-related prohibitions in other laws, please see Sect. 7.1.2, which explains the disqualification sanction regulated by the Public Procurement Act.

In line with the foregoing, the institutions involved in enforcing and punishing unlawful conduct are the HCA in the case of the enforcement of the antitrust rules of the Competition Act, the police and/or public prosecutor and the competent criminal court in the case of criminal offence and the competent civil court in the case of private antitrust litigation.

All of these institutions have independent competence for sanctioning antitrust infringements. The authorities also, in practice, cooperate to a large extent both informally and formally in respect of the cases at hand as follows.

The HCA's antitrust investigation, the criminal proceeding and the antitrust litigation can be initiated on a stand-alone basis. At the same time, as part of its general administrative law obligation to notify any infringements of criminal law it becomes aware of, the HCA reports public procurement cartel cases to the Hungarian Police. The HCA's investigation and the criminal proceedings can be conducted in parallel; however, in practice, the criminal courts await the outcome of the HCA's investigation since the HCA has wider experience and resources in investigating cartel infringements. In the case of private antitrust litigations, the Competition Act expressly regulates the relationship between the two proceedings: the Competition Act declares that the court seized by the private litigation shall suspend its proceeding in the event the HCA initiates an investigation in the same matter until the final and binding decision of the HCA is passed. Furthermore, the Competition Act also states that the decision of the HCA establishing an infringement shall be binding upon the court, while, obviously, the determination of all other elements of private law liability (causality, amount of damages, etc.) remains in the discretion of the court.

In addition, the Competition Act also stipulates that the civil courts shall notify the HCA without delay if any relevant antitrust issues arise in a lawsuit and are obliged to request the HCA to submit its legal views about the case pending before the court. It is important to note, however, that such legal views submitted by the HCA are not binding upon the court ('amicus curiae', very similar to the possibility provided to the European Commission under Regulation 1/2003).

Corporate leniency applications serve as grounds for the exemption of individual punishment within the meaning of Article 420 of the Criminal Code. As already mentioned above, bid rigging in public procurement and concession procedures constitutes a criminal offence and may be punished by imprisonment of up to

[14]Act XIV of 2009: Now Article 88/G of the Competition Act, which sets out a reversible presumption when stating that in lawsuits instituted for the enforcement of any civil claim against any person alleged to be an accomplice in a cartel for the purpose of determining the impact of the infringement on the price charged by the infringer, it shall be treated - until proven otherwise - that the infringement distorted the price to the extent of ten per cent.

5 years. If an individual served as an executive officer, shareholder, supervisory board member or employee of a company at the time of committing the bid rigging, he/she shall not be punished for the criminal offence if he/she submits an immunity application to the HCA for exemption from the administrative fine and discloses the circumstances of the infringement, provided that the HCA has not initiated an investigation already.

In the event the HCA's investigation is already in progress and an individual having served as an executive officer, shareholder, supervisory board member or employee of a company at the time of committing the bid rigging submits a leniency application to the HCA for exemption from or a reduction of the administrative fine, the criminal penalty may be reduced without limitation or can even be dismissed if the particular circumstances of the case allow such relaxation.

#### 7.1.2.3 Parental Liability

Under Hungarian competition law, the liability for the wrongdoing of a subsidiary cannot be imputed to the parent company; however, in certain cases, the parent company may bear (vicarious) joint and several liability for the fine imposed on the subsidiary.

In advance, it must be noted that the definition of 'undertaking' under Hungarian competition law differs from the definition of 'undertaking' under EU competition law. In accordance with the wording of the Competition Act, undertaking does not mean the entire economic unit (e.g. company group), only a single entity subject to competition law rules (e.g. the company carrying out the infringement). The Competition Act contains a separate definition for the entirety of the economic unit: the so-called group of undertakings. According to the definition, an undertaking belongs to the same group of undertakings as the following undertakings: those that (i) are directly or indirectly controlled by the undertaking (subsidiary), (ii) that control directly or indirectly the undertaking (parent company), (iii) that are directly or indirectly controlled by the controlling undertaking (sister company) and (iv) that are directly or indirectly controlled by the undertaking jointly with another undertaking of the group (joint venture). The term is used to indicate all non-independent entities, i.e. entities that can conclude an anticompetitive agreement. This difference influences the attribution of liability for infringements: liability—and in most cases the fine—is imputed to the undertaking, not the group of undertakings. Pursuant to the Competition Act, the fine is imposed on the undertaking that carries out the infringement.

Under the Competition Act, liability cannot be automatically imputed against the parent company for the wrongdoing of its subsidiary. Liability of a parent company can only be imputed for its own wrongdoing, and no automatic presumption exists that its sole control over its subsidiary provides sufficient legal basis for the imputation of liability to it for its subsidiary's conduct. Therefore, while Hungarian competition law in principle acknowledges the single economic unit doctrine, it does not encompass the possibility to impute liability for an infringement in general to the parent (or any other member) of the 'economic unit' to where the infringer belongs.

The 'movie cartel' (Case No. Vj-70/2002) was the only case where liability was attributed to a parent company and its subsidiary. Nevertheless, in that case, both the parent company and its subsidiary were directly involved on their own initiatives in the illegal price coordination mechanism; that is, liability of the parent was attributed for its own infringement and not indirectly for the wrongdoing of its subsidiary. In the 'color picture tubes cartel' (Case No. Vj-45/2008), the investigation was initiated against several undertakings, including some foreign-based parent companies; however, in the end, the procedure was terminated against these parent companies in the absence of evidence on their participation (active role or knowledge) in the infringement. Also, in the 'Budapest road construction cartel' (Case No. Vj-138/2002), the liability for bid rigging was established for a road construction company and a full function joint venture, where the road construction company had 50% ownership interest (joint control). It was actually the coordination of bids by the road construction company and its full function joint venture in the same tender that qualified as bid rigging. In this case too, the road construction company was held liable for its own actions, not as a parent company.

Notwithstanding the above, the group of undertakings is relevant for the imposition of the fine from two aspects: maximum fine and (vicarious) joint and several liability for the fine.

The maximum fine under the Competition Act is 10% of the net turnover achieved in the year preceding the prohibition decision by the undertaking or—if identified in the prohibition decision—by the group of undertakings to which the undertaking carrying out the infringement belongs. Pursuant to the Antitrust Fine Notice, if several undertakings belonging to the same group of undertakings are held liable, the sum of the fines may not exceed 10% of the turnover of the group of undertakings.

The Competition Act provides for the possibility that in case the undertaking carrying out the infringement failed to pay the imposed fine voluntarily and the enforcement of the fine was unsuccessful, for the fine (or its unpaid part), joint and several liability of any member of the group of undertakings indicated in the prohibition decision can be established in a separate order. According to the explanatory note of the amending act introducing this possibility in 2005, the purpose of this provision was to exclude undertakings avoiding the payment of the fine by manipulating the turnover data or the enforceable assets. The legislator considered that close economic relations manifested in a legal form (e.g. parent company) warrant a presumption of liability, which can justify the burden of detrimental consequences (i.e. the fine). In the judicial review of the 'railroad construction cartel' (Case No. Vj-174/2007), two additional requirements were established: only those undertakings can be indicated in the prohibition decision for the purposes of joint and several liability, which (i) have been involved in the competition supervision procedure as a party to the proceedings and (ii) have also been held liable/expressly named as parties for the infringement. In the case of the 'ready-mix concrete cartel' (Case No. Vj-29/2011), two infringers were also sister companies, which is why both were indicated in the prohibition decision as a member of the same group of undertakings and therefore bearing joint and several liability for each other's fine if not paid. In the case of the 'vertical contact lens cartel' (Case No. Vj-55/2013), the infringer took over the relevant activity from another group company before the infringement. The other group company was involved in the procedure due to its close contractual and operative connections. In the end, it was found that there is no evidence of the other group company's participation in the infringement; nevertheless, it was indicated in the prohibition decision as a member of the group of undertakings that may bear joint and several liability for the unpaid fine. Note that this imputation of liability contradicts the principle set forth in the final court decision in the 'railroad construction cartel' (Case No. Vj-174/2007), where the court clearly required that any other group company can only be indicated in the infringement decision to be jointly and severally liable for the fine with the infringer whose liability is also established for the same infringement. The judicial review of the 'vertical contact lens cartel' (Case No. Vj-55/2013) is still underway; that is, it remains to be seen whether the simplified approach followed by the HCA in imputing joint and several liability for the (unpaid part of the) fine against the group members complies with the Competition Act or not. Nevertheless, in the meantime, this possibility may very well be applied to parent companies. In this case, due to joint and several liability, the parent company may be liable for the entire fine. No separate fine calculation is carried out; the liability of the parent company covers the fine originally imposed on the infringer. It also means that the parent company identified in the prohibition decision may bear liability for the unpaid fine regardless of any further considerations (e.g. special circumstances of the parent company or compliance efforts made by the parent company).

#### 7.1.2.4 Associations of Undertakings

The HCA has stated in its decision as a matter of principle that when the HCA scrutinises an agreement that has been concluded or a concerted practice that has been exercised at a meeting of a trade association, the role of the members and that of the trade association must both always be examined.[15] In the course of such an assessment, the fact that the liability of the members is established does not automatically exclude the potential finding of the liability of the trade association.[16]

Pursuant to the decision-making practice of the Hungarian Constitutional Court, liability of the trade association's member undertaking may be established only if the following two conditions are satisfied: (i) the member undertaking has participated in passing the decision infringing competition law and (ii) the member has been identified in the operative part of the HCA's decision on the merits.[17]

The following decisions of the HCA are worth mentioning in the area at stake:

(A) The HCA imposed a total fine of ca. EUR 9.3 million on eight ready-mix concrete manufacturers because they divided among them orders of ready-mix

[15] See Decision No. Vj-34/2003/73., para 34.

[16] Idem.

[17] See Decision No. 359/B/2008 Hungarian Constitutional Court.

concrete by a previously agreed quota and also fixed the price level of ready-mix concrete, thus engaging in a single, continuous and complex infringement.[18] The HCA imposed a symbolic fine of EUR 3000 on the Hungarian Concrete Association because its role in the uncovered infringement was restricted to administrative tasks related to the cartel. The HCA ruled that such behaviour, as the one exercised by the Association, may be found to be a single, continuous and complex infringement.

(B) The HCA fined the Hungarian Association of Layer Hibrid Breeders and Egg Producers, as well as several egg-producing member undertakings, for cartel activities. The HCA established that the association operated a so-called 'price commission', recommended minimum sales prices, called its member undertakings to increase their prices, ran an authorisation system of egg imports, circulated price schedules, and obliged certain member undertakings to offer a certain proportion of their production for export. Furthermore, several companies established a joint venture in which they ran a 'price commission' in order to determine sales prices and operated a compensation mechanism in order to maintain those prices agreed upon. As both the association and the member undertakings were involved in the infringement, they were all fined by the HCA.

(C) It should also be mentioned that in another case, the HCA only established the liability of the trade association and not that of its members despite the fact that some members have been involved in the drafting of the minimum price recommendation.[19] However, in our view, the reason behind the HCA's approach assumingly was that (i) only a few members have been involved in the drafting and that (ii) the infringement consisted not of a consent by and between the members but rather of a recommendation to be published by the trade association towards its members.

(D) In another decision, the HCA imposed fines on an undertaking rendering taxi services.[20] The taxi companies agreed, among others, on the prospective winners of tenders issued with regard to taxi transportation, and they also coordinated their market prices. The undertakings carried out these cartel activities in the framework of a trade association; however, the reason the latter was not fined was because it was not actively involved in the infringement.

In conclusion, it appears from the case law of the HCA and that of the courts that the liability of the trade association's member is linked to the participation in the infringement and not to the mere fact of membership. Therefore, if it is established that the member undertakings exclusively used the trade association to concert their market behaviour, only the liability of the members may be identified and not that of the trade association. Furthermore, pursuant to the decision-making practice of the HCA, the undertaking's membership must exist when the trade association's

[18]See Decision No. -29/2011/522.

[19]See Decision No. Vj-1/2008/77. – in this case, the board of the trade association.

[20]See Decision No. Vj-29/2008/412.

decision infringing competition law was passed and not during the HCA's competition supervision proceedings.[21] In other words, even if an undertaking is no longer a member of the association during the HCA's investigation, this undertaking may still be held liable under the framework of secondary liability.

Under the Competition Act,[22] the amount of the fine imposed on an association of undertakings may not exceed 10% of the net turnover of its member undertakings reached in the business year preceding the passing of the infringement decision. This means that the maximum amount of the fine must reflect the turnover of the members and not that of the trade association.

As for the actual amount of the fine, the Antitrust Fine Notice of the HCA sets forth that in case of an infringement committed by the association in connection with the activities of its members, the starting amount of the fine will be based on the turnover of the members realised on the relevant market.[23] Based on case law, it seems that the relevant turnover of members is interpreted as the relevant turnover of members participating in the passing of the decision infringing competition law.[24]

According to the case law,[25] the fact that the association's activity is lobbying (i.e. it does not have any profit-raising activities) and the (in)ability of the association as infringer to pay the fine are not aspects that may be taken into account when setting the amount of the fine.

Under the Competition Act, where the association fails to voluntarily pay the fine and the enforcement procedure does not result in the collection of the total amount of the fine, the HCA may, by a separate order, require the members of the association having participated in the passing of the decision infringing competition law and having been identified as such in the HCA's decision on the merits to jointly and severally pay the fine.[26]

Consequently, the association's members as identified by the HCA are entitled to challenge the HCA's decision on the merits, i.e. to dispute as to whether or not they participated in the passing of the decision infringing competition law. This is confirmed by the Hungarian Supreme Court's practice as well: the undertakings having secondary liability as members of an association must be involved in the HCA proceedings so that they are able to exercise their right to defence.[27]

In addition to this, separate legal remedy is available against the HCA's order actually enjoining the members (identified in the decision on the merits) to pay the fine.[28]

[21] See Decision No. Vj-8/2012/1751.

[22] Article 76 (1b) of the Competition Act.

[23] Para 13 of the Antitrust Fine Notice.

[24] See Decision No. Vj-8/2012/1751.

[25] Metropolitan Court of Appeal 2.Kf.27.129/2009/14. and Supreme Court Kfv.II.37.268/2013/8. (Vj-51/2005).

[26] Article 76(6) of the Competition Act.

[27] See Supreme Court judgment Kfv.III.37.557/2009. in Case No.Vj-199/2005.

[28] Article 76(7) of the Competition Act.

It must be noted that according to the Civil Code, if it is likely that the association's assets do not cover the fine imposed by the HCA, the association's managing body must convene the general meeting.[29] At the general meeting, members must take the necessary steps to cover the debts.[30] In order to cover debts (to pay the fine imposed by the HCA), associations may request their members to provide supplementary contributions.[31]

In the alternative, if the members cannot decide how to cover debts, the general meeting must decide on the termination of the association. In case of termination, members cannot be held liable for the association's debts (i.e. the HCA fine) pursuant to the Civil Code,[32] but members as identified in the HCA's decision on the merits can certainly be required to pay the fine imposed by the HCA in accordance with the Competition Act.

#### 7.1.2.5 Individual Sanctions on CEOs and Employees

There are certain sanctions and legal consequences that CEOs and other senior employees may face for competition law infringements in Hungary.

First, if certain criteria are met, criminal sanctions may be applicable against individuals engaged in certain types of cartel activity. However, the requirements are strict, and only the most serious infringements may be subject to criminal sanctions (see details in Sect. 7.1.2).

Importantly, liability under criminal law is individual, so only private person (s) who have actually participated in the cartel activity will be held liable regardless of their position within the company (which may have 'benefited' from the infringement). Such criminal proceedings are run through the regular criminal system, and the relevant authorities include the police, the prosecutor's office and the criminal courts. In practice, the criminal proceedings will likely rely on the findings of the HCA, so the starting point for a criminal investigation is likely to be the HCA's decision. In Hungary, there has been one case so far where the criminal procedure resulted in a final and binding criminal conviction by the courts: in relation to a public procurement tender for medicine by Budapest hospitals, one private person was convicted to (suspended) imprisonment for manipulating the results of such tender (following a finding of an infringement by the HCA against the companies concerned).

In addition, certain types of procedural breaches concerning administrative proceedings are also criminalised: these are violent obstruction of administrative proceedings (where a person acts in such an anti-social or violent conduct that is capable to undermine, embarrass, obstruct or prevent the authority's discharge of its

[29] Section 3:81(1) of the Civil Code.

[30] Section 3:81(2) of the Civil Code.

[31] This is what happened in connection with the so-called BankAdat banking cartel case (see Decision No. Vj-8/2012/1751).

[32] Section 3:65(4) of the Civil Code.

duties; see Article 279 of the Criminal Code) and submission of a wilfully misleading complaint to authorities (Article 271 of the Criminal Code).

Second, employees of a company may also face claims by their employer if they participated in a cartel infringement 'on behalf of' the employer. Under the Hungarian Labour Code, employees can be held liable for damages caused by a breach of their obligations under the employment relationship. Employees are required to act as reasonably expected during their employment and are liable for any damages caused by their failure to act according to this standard, but the burden of proving that the employee failed to comply with these requirements is on the employer. Under the Hungarian labour rules, CEOs and other senior members of management are liable for the full amount of damage caused to their employer. In contrast, there is a limit to the extent of the liability of other (lower ranking) employees, which is capped at 4 months of their salary (unless the damage is caused intentionally or through gross negligence). It could be argued that personal participation in a cartel infringement at least amounts to gross negligence (especially if the given employee was provided with proper competition law training and was under the specific obligation to observe competition law rules under the company's compliance policies). We are, however, not aware of any Hungarian case law in this respect, and it is indeed questionable whether the courts would regard such claims as undermining the effectiveness of competition law sanctions on companies (as this could serve as a way for companies to 'pass on' the sanctions imposed on them to their employees). The company's claims against employees can be enforced through labour courts, and claims would typically rely on the HCA's decision establishing the employer's liability.

Finally, there are no administrative sanctions available against individuals in Hungary for participating in a cartel infringement. Such a sanction was to be introduced back in 2008 (an exclusion of executive officers of companies that participated in a competition law infringement for 2 years); however, the Hungarian Constitutional Court found these provisions unconstitutional due to procedural/due process grounds, and thus they never entered into force.

#### 7.1.2.6 Employee/Director Indirect Financial Liability

As for employee financial liability, please see details in Chap. 6. above.

As for managing directors, if their duties are based not on an employment relationship but rather on a 'mere' civil law/mandate agreement, then they will be liable for damages under civil law to the company where they act as a managing director for any damages caused by breach of contract. However, under the Hungarian civil law rules, the director causing damage to the undertaking shall be relieved of liability if he/she is able to prove that the damage occurred as a consequence of unforeseen circumstances beyond his/her control and there had been no reasonable cause to act to prevent or mitigate the damage). We are not aware of any Hungarian case law in this respect, but the question as to whether such actions could reduce the effectiveness of fines as competition law sanctions is also applicable here.

Based on our limited experience, director insurance policies do not cover this type of liability.

## 7.2 Are Sanctions Efficient/Sufficient?

The following table shows the five highest fines imposed in one procedure (involving more individual fines) between 2013 and 2017.

| Case no. | Case | Year of decision | Amount of total fine | Type | Information on appeal procedure |
|---|---|---|---|---|---|
| VJ/74/2011 | 'FX loan repayment' | 2013 | 9,488,200,000 Ft ca EUR 31.6 million | Anticompetitive agreement/cartel | The Competition Authority's decision regarding fines was overruled by the supreme court; lower fines were imposed in the new procedure (now under appeal). |
| VJ/8/2012 | 'BankAdat' (Hungarian Banking Association and International Training Centre for Bankers Ltd.) | 2016 | 4,015,000,000 Ft ca EUR 13 million | Information exchange | Court procedure is pending (before first instance) |
| Vj/29/2011 | Hungarian Concrete Association and Others | 2014 | 2,790,200,000 Ft ca EUR 9.3 million | Anticompetitive agreement/cartel | Court procedure is pending (back to second instance) |
| Vj/28/2013 | Euromedic-Hungaropharma | 2015 | 2,443,207,000 Ft ca EUR 8 million | Anticompetitive agreement/cartel | Court procedure is pending (before first instance) |
| VJ/23/2011 | Axel Springer and Others (regional daily newspapers) | 2014 | 2,164,869,000 Ft ca EUR 7.3 million | Anticompetitive agreement/cartel | Court procedure is pending (appeal to supreme court; second instance annulled fines and ordered a new procedure) |

The following table shows the 5 highest fines imposed on individual undertakings between 2013 and 2017.[33]

[33]NOTE: 1 061 300 000 HUF (ca 3.6 million EUR) was imposed on Auchan in 2015 in Case No Vj/60/2012 but this was not a classic antitrust case but a special one under Hungarian law (court procedure pending: appeal to supreme court; second instance annulled the Competition Authority's decision and ordered a new procedure).

| Case no. | Case | Undertaking fined | Year of decision | Amount of individual fine | Type | Information on appeal procedure |
|---|---|---|---|---|---|---|
| VJ/8/2012 | 'BankAdat' (Hungarian Banking Association and International Training Centre for Bankers Ltd.) | Hungarian Banking Association | 2014 | 4,000,000,000 Ft ca EUR 13 million | Information exchange | Court procedure is pending (before first instance) |
| VJ/74/2011 | 'FX loan repayment' | OTP Bank | 2013 | 3,922,400,000 Ft ca. EUR 13.075 million | Anticompetitive agreement/cartel | Competition Authority's decision regarding fines was overruled by the supreme court; the new procedure is still ongoing. |
| VJ/74/2011 | 'FX loan repayment' | ERSTE BANK HUNGARY | 2013 | 1,725,700,000 Ft ca. EUR 5.752 million | Anticompetitive agreement/cartel | |
| VJ/74/2011 | 'FX loan repayment' | Kereskedelmi és Hitelbank | 2013 | 983,300,000 Ft ca. EUR 3.278 million | Anticompetitive agreement/cartel | |
| VJ/74/2011 | 'FX loan repayment' | CIB Bank | 2013 | 835,400,000 Ft ca. EUR 2.785 million | Anticompetitive agreement/cartel | |

No (administrative, misdemeanour or criminal) fines have been imposed on individuals as the Hungarian legal system does not allow such fines.

There was only one case so far where the court sentenced someone for imprisonment due to the breach of the cartel offence (for 1 year, suspended for 2 years) and also ordered the individual to be disqualified from exercising her profession for 3 years in relation to Case No. Vj/28/2013 (Euromedic-Hungaropharma).

There are several studies on fine setting in Hungary. The Hungarian Competition Law Research Centre has an ongoing research on fines. However, currently, there are no actual empirical studies on the effectiveness of fines. The latest study is 6 years old, and we are of the opinion that new research is needed in order to draw conclusions on the effectiveness of fines currently.

Criminal sanction and its goal have a characteristic function in criminal law terminology. At the beginning, retaliation/revenge appeared as a central element, but later, reparation and restorative justice became more important.

In criminal law, the present conventional/accepted intermediary theory declares the dual aim of criminal sanction as follows: criminal sanction intends to, on the one hand, punish the perpetrator because he/she has committed a crime (*special prevention*) and, on the other hand, avoid future crimes by deterring others to do so (*general prevention*).

According to Article 79 of the Criminal Code, the main goal of sanction is special and general prevention. *The aim of a punishment is to prevent – in the interest of the protection of society – the perpetrator or any other person from committing an act of crime.*

But what is actually required from a sanction in order to sway people not to commit a crime (*deterrent effect*)? Prevention in our view has three main means. The first one is the mere fact that if someone commits a crime, there is a certain possibility of criminal sanctions. This factor of deterrence should be provided by the legislative branch of the state. The second element of prevention is the inevitability of sanctions, which depends on the executive branch of the state. Easy to realise, the mere possibility of sanctions cannot deter someone to commit a crime if the authorities responsible for enforcement are not able to carry out the law properly. As Beccaria[34] wrote in the eighteenth century, it is not the severity of the sanction that has the power of deterrence, but the inevitability of such sanction. The last mean of prevention is proportionality, which means that the sanctions should be proportional with the committed crime.

To examine the question from a competition law point of view, there could be other circumstances that need to be taken into account. The absence of enforcement of criminal sanctions does not necessarily mean the complete absence of deterrent power. It seems likely that the advantages of committing a cartel-related crime might be higher than the disadvantages of the sanctions concerned (as we saw earlier, the number of enforced criminal cases are very low in Hungary). According to this, it seems that the criminalisation of *bid rigging* does not have enough deterrence, partly because of inadequate enforcement practice. It is also weakening prevention, that if a CEO of an undertaking that was party to a cartel is even sentenced by a court, the stigmatisation in accordance with such a crime cannot be compared to other crimes. The result of this is that the given person could easily continue to take part even in the business operations of the same industry, without having have to face any serious loss to himself/herself.

However, a leniency policy could still restrain people from committing cartel-related crimes, by creating distrust between parties taking part in the cartel. This solution, based on game theory, helps to enhance the effectiveness of detecting and thus preventing cartels.

Deterrence does not depend solely on national criminal law. Deterrence could be strengthened or weakened by other circumstances too. In Hungary, the Competition Act and the Public Procurement Act should be considered as factors strengthening deterrence. These laws, as opposed to the Criminal Code, contain sanctions against legal entities/undertakings (instead of natural persons); thus, there is a possibility to apply disadvantageous legal consequences against a legal entity that takes part in the infringement. Just to give an example, Article 62 (1) a) ag) of the Public Procurement Act excludes those natural persons and undertakings from future public procurement procedures that have committed cartel-related crimes regulated by the Criminal Code.

To summarise the answer to this question, the enhancement of the severity of the sanctions by the legislator, is not nearly as retentive, as many people may think. Even lower-grade punishments, which should be more or less proportional with the crime committed, are far more preventive if the enforcement body of the state is able to execute the laws adequately, and so perpetrators have to take into account the inevitability of the (criminal) consequences. In Hungary, Article 420 of the Criminal

[34]C. Beccaria, On Crimes and Punishments, Italy, 1764.

Code does not seem to be deterrent enough, in the absence of a consequent and strict enforcement. On the other hand, to restrain someone from committing a crime does not depend solely on the criminal rules, since those serve only as last resort (ultima ratio) in the legal system. In our case, the seemingly ineffective enforcement of criminal sanctions does not vanish the deterrent effect completely, thanks to other sectoral regulation such as the Competition Act and the Public Procurement Act. Such regulations use administrative legal sanctions that are capable of deterring the perpetrators from committing antitrust infringements.

Recidivism is indeed a problem in Hungary in connection with competition law enforcement, and it always has been. Without intending to be all inclusive, here are some major cases from recent Hungarian antitrust[35] enforcement where one or more parties have breached the Competition Act for at least the second time.

i. **Case No. VJ/74/2011 – 'FX Loan Repayment':** the major Hungarian commercial banks coordinated their market practices after the Hungarian government—in order to help consumers indebted in foreign currencies—introduced special legislation to ease the termination for risky mortgages. The HCA 'honoured' recidivism by most of the major banks—who were also involved in the MIF cartel (**Case No. VJ/18/2008**)—with 50% higher fines.
ii. **Case No. VJ/29/2011 – 'Ready-Mix Concrete'**: the major Hungarian construction companies were found guilty for market sharing by the HCA in the ready-mix concrete market. In case of Strabag Hungary, the HCA increased the fine by 200% because of previous cartel infringements.
iii. **Case No. VJ/69/2008** – '**Mills':** the HCA fined all the major players on the Hungarian mill market for fixing prices and sharing the markets for flour. Most of the parties, however, have been fined before by the HCA for a similar conduct (**Case No. VJ/74/2003**). The HCA took recidivism into account as an aggravating factor when setting the fine.
iv. **Case No. VJ/174/2007 – 'Railroad Construction':** this involves bid rigging of most of the major construction companies in Hungary in connection with public tenders for railroad construction and maintenance. Szentesi Vasútépítő Kft. (a subsidiary of the Strabag group) was fined for HUF 4,300,000,000 (approx. EUR 13,000,000) partly because its parent company was involved in previous antitrust violations several times.

As Hungary is a small market and a small economy, the one reason that may cause recidivism is that the managers, CEOs, responsible sales leaders, etc. know each other well and has known each other for a long time. These personal, often very confidant relations, may make it easier to coordinate market practices on the Hungarian markets. Another theory—often heard by HCA officials in public

[35]We add. that – as the HCA also has powers in connection with consumer protection cases – the HCA has numerous unfair commercial practices decisions where it takes recidivism into account as an aggravating factor.

speeches—is that recidivism (or the frequent occurrence of antitrust violations) may be in connection with the planned economy of the previous (soviet or socialist) economic and political era. According to that theory, the managers, who were socialised before changing to capitalism in 1990, see coordination as a natural phenomenon, as it was the common way to conduct business in Hungary in the socialist era.

Be that as it may, the HCA also highlighted recidivism as one of the major driving forces to introduce its new Antitrust Fine Notice. The HCA stated[36] that recidivism is one of the reasons the HCA intends to set higher fines in the future for antitrust infringements.

According to para 44 of the Antitrust Fine Notice, the HCA applies more severe sanctions (fines) in case of recidivism. Recidivism occurs when the same undertaking conducts the same or 'similar' infringement after the HCA, the European Commission or any other European NCA established an infringement based on Article 11 or 21 of the Competition Act or Article 101 or 102 TFEU. Paragraph 45 of the Antitrust Fine Notice uses 'similarity' in a way that a conduct is similar to the previous conduct if it also infringes Article 11/101 TFEU or Article 21/102 TFEU. In other words, an infringement is similar to the previous one if it also counts as an anticompetitive agreement or an abuse of a dominant position. However, the Antitrust Fine Notice clearly states that no further resemblance is necessary to establish recidivism (for e.g., by effect, information exchange infringement may count as recidivism if the same undertaking has been found 'guilty' in a bid rigging case previously).

Recidivism also occurs, according to para 46 of the Antitrust Fine Notice, when the previous infringement was committed by the legal predecessor of the current infringing company. It also counts as recidivism when the previous infringer of competition rules is in the same group of undertakings as the current undertaking under investigation. A foreign undertaking's previous infringements of Article 101/102 TFEU, if such foreign undertaking belongs to the same group as the infringing undertaking under scrutiny, may only be assessed as recidivism if such previously infringing foreign company directly or indirectly controls the latter undertaking.

The HCA limits the time period to 10 years when taking into account previous infringements as recidivism. Infringement decisions older than 10 years do not constitute recidivism. It is important to note that the HCA specifically states in para 48 of the Antitrust Fine Notice that it may also consider infringements, where the appeal courts did not reach a final decision on the case yet, when establishing recidivism in a later case.

According to para 49 of the Antitrust Fine Notice, the HCA, in order to prevent future anticompetitive infringements, takes recidivism into account as a serious aggravating factor when determining the fine. For this reason, the amount of the

[36]http://www.gvh.hu/gvh/elemzesek/vitaanyagok/nyilv_konz_antitroszt_fogyasztos/a_birsagkozlemeny_fobb_valtozasai_es_hatteruk.html?query=ism%C3%A9tl%C5%91d%C3%A9s (only Hungarian text is available).

fine calculated according to the Antitrust Fine Notice is increased each and every time by a maximum of 100%. This means that if the same undertaking takes part in the same infringement for the third time, the fine could be three times higher than it would be in the absence of recidivism. The HCA assesses the degree of the similarity of the current and the previous conduct(s) when deciding on the elevation of the fine in accordance with recidivism. The less time elapsed between two infringements, the more the HCA is willing to increase the fines.

There are two situations when authorities may impose sanctions on individuals in connection with a competition law infringement. One is when the HCA imposes procedural fines on individuals taking part in the administrative proceeding in front of it. The other case is the criminal law case against individuals taking part in a bid-rigging cartel.

According to Article 61 of the Competition Act, a procedural fine may be imposed on anyone who is obliged to perform any action in the competition supervision proceeding in front of the HCA. This includes not just undertakings, as only such undertakings may be subject to the administrative procedure of the HCA, but individuals (witnesses, attorneys, etc.) as well.

According to Article 61 (6) c) of the Competition Act, the HCA takes recidivism as an aggravating factor when setting the procedural fine on any individual. Only procedural fines imposed during the same competition supervision proceedings may be taken into account.

In Hungarian criminal law, in respect of habitual and repeat offenders (recidivist), the maximum penalty applicable to another criminal offence committed shall increase by half in the case of imprisonment; however, it may not exceed 25 years. The punishment of habitual and repeat offenders may be reduced only in cases deserving special consideration.[37]

The Criminal Code defines recidivist in Article 459 (1) 31) a)–b). According to these provisions, 'recidivist' shall mean the perpetrator of a crime of intent if such person was previously sentenced to an executable term of imprisonment for a crime committed intentionally and 3 years have not yet passed since the last day of serving the term of imprisonment or the day when it ceases to be enforceable until the commission of another criminal act. Habitual recidivist shall mean any recidivist who commits on both occasions the same crime or a crime similar in nature. Repeat offender shall mean a person who has been sentenced to an executable term of imprisonment as a recidivist prior to the commission of a crime of intent and 3 years have not yet passed since the last day of serving the term of imprisonment or the day when it ceases to be enforceable until the commission of another criminal act punishable by imprisonment.

Taking into consideration the above provisions of the Criminal Code, any person who commits the felony of bid-rigging cartel (Article 420 of the Criminal Code) as a recidivist or as a habitual recidivist may sentenced to be imprisoned for 1.5–7.5 years (instead of the original punishment of 1–5 years in prison).

[37] Article 89 of the Criminal Code.

## 7.3 The Way Forward

The current issues and trends in Hungary can be summarised as follows:

- The precise deterrent effect of fines is rather difficult to measure; nevertheless, it can generally be stated that the fines imposed by the HCA are a widely known sanction in the Hungarian business community that is applicable to antitrust infringements. The HCA is also generally known to be a vigorous enforcer of competition laws, who does not shy away from imposing rather significant fines in cases.
- Other sanctions of illegal competition conduct (such as private damages, nullity, criminal sanctions, etc.), however, are generally less widely known. This may be due to various factors, including the scarcity of damages actions in Hungary or the fact that there has only been one criminal conviction under the cartel offence so far (which was also not widely publicised in the business or general press).
- There is also a general strengthening of compliance efforts in Hungary, most led by subsidiaries of multinational corporations but also followed by a growing number of local/medium-sized enterprises: the sanctions for the breach of antitrust law are invariably emphasised in such compliance programmes,
- there are currently no sanctions on individuals for the infringement of competition law in Hungary (with the exception of the cartel offence for public procurement cases in the Criminal Code). It is possible therefore to envisage a regime that would also target individuals; however, great care would have to be exercised in order to devise an effective system that also complies with the test of constitutionality. As a result, the lawmaker would need to balance the need to impose a punishment that can act as a real deterrent (i.e. which can be imposed immediately as a result of a competition proceedings by the HCA) but where the individual's constitutional right to defence and right to remedy/access to courts are duly respected. The system would also have to ensure that there are no loopholes for individuals to 'sneak back in' a controlling role after a sanction is imposed. In this respect, the experience from criminal law and criminal sanctions (e.g. in relation to professional disqualification) would need to be considered.

Check for updates

# Italy

8

Michele Franzosi and Ottavia Raffaelli

## 8.1 Introduction

The Italian Competition Authority (hereinafter ICA or AGCM) and administrative judges are the only authorities entitled to impose or modify the amount of antitrust sanctions. The AGCM is an administrative independent agency created by Law No. 287/1990 to enforce the Italian and EU competition law provisions. Following an administrative antitrust procedure before the AGCM, undertakings or consumers can prosecute in civil courts a company or an association of companies for violating the Italian or European competition law provisions and seek for damages. However, such civil actions cannot seek for punitive damages or an antitrust fine as antitrust sanctions are administrative in nature. Despite the effort to stimulate private antitrust actions, for several years these actions have only played a minor role in Italian antitrust enforcement.[1] In Italy, the fine imposed by the ICA remains the main tool for enforcing competition law and deterring undertakings from engaging in anticompetitive conduct.[2] As outlined above, the criteria to determine the amount of antitrust sanctions are defined by EU and Italian laws, guidelines and case law.

The Italian antitrust law does not provide any form of fine (economic or criminal) on individuals, and generally no criminal antitrust sanctions exist. Thus, in Italy, only undertakings or associations of undertakings can be fined for an antitrust violation through sanctions that are administrative in nature. With respect to the

[1] *See, e.g.*, E. A. Raffaelli, Italy, The Private Competition Enforcement Review, 11th ed. 2018, p. 165 ff.

[2] G. Massarotto, Intese restrittive della concorrenza (anno 2016), Concorrenza e Mercato 2017.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_8

liability of parent companies, generally no fine is automatically imposed on holding companies for antitrust violations committed by subsidiaries, except in cases of total or quasi-total control. The parent company needs to effectively exert a decisive influence over its subsidiaries to be held responsible for its subsidiaries' antitrust infringements.

### 8.1.1 Rules of Law

In Italy, a combination of Italian and EU rules and guidelines defines the criteria for calculating competition law sanctions. The main sources of law are as follows: (i) Article 15 of Law No. 287/1990 (hereinafter 'the Law'); (ii) Guidelines on the rules of application of the criteria for quantification of monetary sanctions imposed by the Authority pursuant to Article 15(1) of Law No. 287 of 10 October 1990 (hereinafter 'Italian Guidelines on sanctions 2014'); (iii) Notice on the non-imposition and reduction of fines under Article 15 of Law No. 287 of 10 October 1990 (hereinafter 'Leniency Notice') enacted on 15 February 2007, as last amended on 31 July 2013; (iv) Law No. 689 of 24 November 1981 on the general legislation about penalties for administrative offences referred to in Article 31 of the Law; (v) EU provisions, such as the European Commission Guidelines on the method of setting fines imposed pursuant to Article 23(2)(a) of Regulation No. 1/2003 (hereinafter 'EU Guidelines'). These rules of law and guidelines guide the ICA in setting the amount of competition law fines.

### 8.1.2 Criminal and Business Law

Although the Italian legislation does not provide any form of criminal antitrust liability, some behaviour can violate both antitrust and criminal law. Bid rigging and market rigging are only two examples. According to the Italian law, those offences can be considered both crimes and antitrust violations. While the AGCM can prosecute only undertakings for bid rigging and market rigging, criminal judges can condemn individuals for those crimes.

The reason why in principle undertakings cannot be charged with crimes is mainly due to the Latin maxim *societas delinquere non potest*, according to which corporations cannot commit a criminal offence. Thus, in principle in Italy, only individuals can be charged with crimes. This maxim is mainly related to the consideration that only human beings are capable of making the moral determination of what is right and what is wrong. However, in Italy, a kind of criminal liability of corporations has existed since 2001. Although Legislative Decree No. 231 dated 8 July 2001 (hereinafter '231/2001') in form refers to an administrative liability of corporations, in practice such a liability is considered in all respects a criminal liability. Under 231/2001, entities, corporations and associations can be held responsible for administrative infringements depending on a crime.[3] In particular, a corporation or association is liable for crimes committed in its interest or advantage by persons who formally or *de facto* manage and control the company or associations.[4]

Legislative Decree 231/2001 establishes that several types of sanctions can be imposed on a corporation, such as (*i*) pecuniary fine; (*ii*) mandatory seizure (called *confisca*); (*iii*) interdiction of the company's activities, which can be permanent in case of significant and repetitive violations; (*iv*) prohibition on entering into agreement with the public administration; (*v*) exclusions from public contribution or financial aid; (*vi*) publication of the judgment and prohibition on advertising services or goods.[5] In case the violation is reiterated within 5 years from the judgment or the company has gained a relevant profit from the violation, the sanction imposed is even heavier.

Moreover, in January 2018, the ICA signed two Memoranda of Understanding with the Public Prosecutor of Milan and Rome: the *Memorandum between the ICA and the Prosecutor's Office of Rome*, of 10 January 2018 and the *Memorandum between the ICA and the Prosecutor's Office of Milan*, of 11 January 2018.[6] These Memoranda aim to increase the existing cooperation between the AGCM and the Public Prosecutor of Rome and Milan. In particular, the ICA and the prosecutors are encouraged to exchange information regarding cases concerning both potential antitrust and criminal violations. On 27 May 2015, the AGCM condemned 13 undertakings for violating Article 101 TFUE in a public tender. The investigation started *ex officio* considering the preliminary results and evidence collected by the Prosecutor's Office of Florence in some criminal proceedings.[7] Similar Memoranda have been signed between the ICA and the Italian Financial Police (called *Guardia di Finanza*) in order to incentivise the exchange of information between these two bodies, which can be crucial to antitrust investigations. In the context of public tenders and corruption, the ICA actively collaborates with the Italian Anti-

[3]D.lgs. 231/2001, English version available at http://www.oecd.org/investment/anti-bribery/anti-briberyconvention/45508054.pdf.

[4]Article 5 (Liability of the agency), D.lgs 231/2001.

[5]From Article 10 to 19 of the D.Lgs 231/2001.

[6]*See, e.g*., AGCM, Press Release: The Italian Competition Authority and the Public Prosecutor's Offices of Milan and Rome signed a memorandum of understanding, http://en.agcm.it/en/media/press-releases/2018/1/alias-2493. Accessed 6 November 2018; C. Ienca, Protocollo d'intesa tra l'Autorità Garante della Concorrenza e del Mercato (AGCM) e le Procure di Roma e Milano: maggior contrasto alla corruzione e alle condotte anticoncorrenziali, in Diritto Bancario (Febr. 12, 2018), available at http://www.dirittobancario.it/news/antitrust-e-concorrenza/protocollo-d-intesa-tra-autorita-garante-della-concorrenza-e-del-mercato-agcm-e-le-procure. Accessed 23 October 2018.

[7]Italy, The ICA fines a cartel in the supply of electromechanical goods and services for the railway sector (Dec. 17, 2015), available at https://webgate.ec.europa.eu/multisite/ecn-brief/en/content/ica-fines-cartel-supply-electromechanical-goods-and-services-railway-sector. Accessed 23 October 2018.

Corruption Agency (ANAC), with whom it has signed another Memorandum of Understanding in December 2014.

In summary, although in Italy no criminal antitrust provisions exist, undertakings that engage in antitrust violation can be charged with criminal allegations under 231/2001, to the extent that their conduct also constitutes a criminal offence. A strict collaboration between the ICA and criminal prosecutors and agencies exists and is crucial for both antitrust and criminal investigations.

## 8.2 Sanctions Regime

As outlined in Sect. 8.1.1 above, in Italy competition law sanctions are mainly regulated by Article 15 of the Law, the Italian and European Guidelines and Law 289/81.

### 8.2.1 Brief Overview

#### 8.2.1.1 The Italian Antitrust Law (287/90)

Article 15 of the Law states that *if the investigation* [. . .] *reveals infringements of Article 2 or 3, the Authority shall set a deadline within which the undertakings and entities concerned are to remedy the infringements. In the most serious cases, it may decide, depending on the gravity and the duration of the infringement, to impose a fine up to ten per cent of the turnover of each undertaking or entity during the prior fiscal year*. In other words, in case an antitrust violation occurs, the AGCM can condemn a company to adopt specific behaviour or structural remedies in addition to the imposition of a fine. In the *Essselunga/Coop Estense* case, for example, the ICA required Coop to refrain from exercising its veto power over the urban planning choices relating to a specific area.[8]

With respect to the fine, the final amount of the sanction may not exceed 10% of the undertaking's total turnover in the previous business year. Furthermore, Article 1.4 of the Law states that the Italian antitrust rules *shall be interpreted in accordance with the principles of EU antitrust law*.[9]

#### 8.2.1.2 The Italian Guidelines on Sanctions 2014

Before the enactment of the Italian Guidelines on sanctions in 2014, the ICA set competition law fines based on the European Commission Guidelines on the method of setting fines adopted in 2006 (and, in a previous version, in 1998) and the national

[8] *See* AGCM, *A437-Esselunga/Coop Estense*, provv. n. 23639, in Boll. 24/2012.

[9] Article 1.4 of the Law 287/1990.

precedents.[10] Prompted by the need to ensure a more transparent and predictable sanctions regime, the ICA adopted its own guidelines in October 2014.[11] The Italian administrative courts have repeatedly asked the AGCM to provide specific methods to address the lack of transparency and make clear the logic adopted to set a fine for ensuring a more effective judicial review.[12] The first draft of the Italian Guidelines on sanctions 2014 was published in May 2014 for public consultation[13] to *illustrate the principles that the Authority* [was] *committed to following in setting fines, in order to ensure transparency, predictability and objectively in its decisions*.[14] At that time, 19 Member States' National Competition Authorities (NCAs) had already adopted National Guidelines to determine the amount of antitrust fines.[15]

The Italian Guidelines on sanctions 2014 have the clear goal to emphasise the importance of the AGCM's sanctions in enforcing antitrust law provisions. High level of fines was designed to deter both the undertakings and associations of undertakings liable for the antitrust violations (the so-called *effetto dissuasivo specifico*, namely specific deterrence) and generally all undertakings (the so-called *effetto dissuasivo generale*, namely general deterrence).[16] Specifically, for the most serious antitrust violations, such as price fixing and market sharing limitation, the fine will not be lower than 15% of the value of sales of goods and services directly or indirectly related to the violation. This provision does not appear in the European Guidelines.

In case an antitrust violation occurs in the context of a public tender, the Italian Guidelines on sanctions 2014 specify that the value of sales needs to reflect the value

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[10]European Commission, Press release Competition: Commission revises Guidelines for setting fines in antitrust cases (Jun. 28, 2006) available at http://europa.eu/rapid/press-release_IP-06-857_en.htm?locale=en. Accessed 23 October 2018.

*See* N. Castelnuovo, Italian Competition Authority issues guidelines on antitrust infringement fines, Lexology (Nov. 4, 2014) available at https://www.lexology.com/library/detail.aspx?g=6d53ff6e-e28c-4595-93d2-f5049434b821 Accessed 23 October 2018. ('The Authority was one of the few national authorities within the European Network that had not adopted guidelines on the setting of fines. Until now, the Authority has applied both the European Commission's guidelines on the method of setting fines imposed pursuant Article 23(2)(a) of Regulation No 1/2003 and the national case law on the application of pecuniary administrative fines.')

[11]For a comment on the Italian Guidelines on sanctions 2014, see F. Ghezzi and G. D. Pini, The Italian Guidelines on the method of setting fines. A (half) step towards transparency and deterrence, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2675716. Accessed 23 October 2018.

[12]F. Ammassari, Guidelines on the Method of Setting Fines for Infringements of Competition Rules: Key Issues, Italian Antitrust Review n. 3 (2014), p. 231.

[13]The draft of the Italian Guidelines on sanctions 2014 was published along with a report which illustrated for each rule both the EU provisions set in the EU Guidelines and the solutions adopted in other member states. The report also specified the main issues raised by the judicial review.

[14]See F. Ammassari, supra note 12.

[15]F. Ghezzi and G. D. Pini, supra note 11, at 13.

[16]AGCM, Linee Guida sulla modalità di applicazione dei criteri di quantificazione delle sanzioni amministrative pecuniarie irrogate dall'Autorità in applicazione dell'articolo 15, comma 1, della legge n. 287/90, section 3.

of the tender without considering the duration of the infringement. In November 2017, the ICA fined the so-called big four accounting firms (Deloitte, KPMG, Ernest&Young and PWC) for a total amount of 23 million euros for conspiring to win contracts that are worth a total of 66 million euros.[17] When the relevant market affected by the anticompetitive conduct appears broader than the one of the tender, the AGCM can take into account the total value of sales of the overall market of the affected service or good.

According to the Italian Guidelines on sanctions 2014, the fine can be up to 30% of the value of sales depending on the gravity of the infringement. If the undertaking achieved relevant worldwide revenues or belongs to a group of significant economic strength, the amount of fine can be increased up to 50%.[18]

According to paragraph 17 of the Italian Guidelines on sanctions 2014, to guarantee the required deterrent effect in dealing with the most serious antitrust violations, the ICA can also impose the so-called entry fee.[19] That fee allows the ICA to adjust the fine with an additional penalty, which ranges from 15 to 25% of the value of sales.

Furthermore, in case the company has committed a similar antitrust violation in the previous 5 years, the fine can increase up to 100%.[20]

The Italian Guidelines on sanctions 2014 set out the same two-step process adopted by the EU Commission to set the amount of the antitrust sanction. First, the ICA determines the basic amount of the fine; second, the ICA upwards or downwards adjustment considers multiple aggravating and mitigating circumstances. Each aggravating or mitigating circumstances can increase or reduce the basic fine up to a maximum of 15% of the fine. If several concurrent aggravating or mitigating factors exist, the basic fine can be reduced or increased up to 50%. The criteria to evaluate the gravity of the conduct include (*i*) prejudice against

[17] *See* Competition Policy International, Italy: Antitrust Authority Fines Accounting Firms (Nov. 7, 2017), available at https://www.competitionpolicyinternational.com/italy-antitrust-authority-fines-accounting-firms/. Accessed 23 October 2018. Reuters, Italy Antitrust Fines 'Big Four' Accounting Firms Total of 23 Million Euros (Nov. 7, 2017), available at https://www.reuters.com/article/us-Italy-antitrust/Italy-antitrust-fines-big-four-accounting-firms-total-of-23-million-euros-idUSKBN1D72DE. Accessed 23 October 2018. According to the AGCM, that case was one of the most serious violations of the antitrust law.

[18] AGCM, Linee Guida sulla modalità di applicazione dei criteri di quantificazione delle sanzioni amministrative pecuniarie irrogate dall'Autorità in applicazione dell'articolo 15, comma 1, della legge n. 287/90, section 20.

[19] Similar 'entry fee' exists in the EU Guidelines. 'In order to deter companies from ever entering into seriously illegal conduct: The Commission may add to the amount as calculated above a sum equal to 15% to 25% for the year of relevant sales, whatever the duration of the infringement. According to the Guidelines, such as 'entry fee' will be applied in cartel cases and may be applied in other types of anti-trust infringements.' European Commission, Press release Competition: Commission revises Guidelines for setting fines in antitrust cases (Jun. 28, 2006) available at http://europa.eu/rapid/press-release_IP-06-857_en.htm?locale=en.

[20] AGCM, Linee Guida sulla modalità di applicazione dei criteri di quantificazione delle sanzioni amministrative pecuniarie irrogate dall'Autorità in applicazione dell'articolo 15, comma 1, della legge n. 287/90, section 22.

innovation; (*ii*) competitive conditions in the relevant market, including barriers to entry; (*iii*) degree of the economic consequences; (*iv*) effect of the conduct on markets, as well as on consumers; (*v*) national legislation/regulation.

Mitigating factors include (*i*) payment of compensation to the damaged person/entity; (*ii*) effective cooperation with the AGCM, which goes beyond what the law required; (*iii*) limited involvement in the anticompetitive conduct; (*iv*) existence of a legislation or a public body's decision/measure that authorised or facilitated the violation. In the I794-*ABI/SEDA* proceeding, the AGCM stated that the associations of undertakings that engaged in the anticompetitive conduct benefited from an exemption from fine due to the uncertainty of the normative context and because the violation was not serious.[21]

The adoption of an antitrust compliance programme (ACP) by the undertaking is also considered as a mitigating factor. However, the mere adoption of such a programme is not sufficient in itself for the undertaking to benefit from the reduction of the sanction.[22] The undertaking needs to demonstrate that the ACP has been effectively adopted, thus not merely performed in a 'formalistic' and standardised way. In line with European best practices, the compliance programme needs to be specific and suitable. For example, the undertaking must prove a full involvement of the management in enforcing and promoting the programme, the appointment of a specific compliance officer, the adoption of specific and appropriate monitoring, auditing and reporting mechanisms. The provision of incentives for compliance with the programme, as well as disincentives for non-compliance, should also be provided. For instance, in the case *I793-Aumento Prezzi Cemento*, the ICA recognised that the company had the right to benefit from a reduction of 10% of the fine for having adopted a compliance programme.[23] Similarly, in *I789-Agenzie di modelle*, the ICA recognised a mitigating factor reducing the fine to 5%.[24] In this respect, it is worth noting that, on 25 September 2018, the ICA adopted specific Guidelines on antitrust compliance, providing undertakings with guidance on several aspects concerning ACPs, including (*i*) the definition of the content of compliance programmes, (*ii*) the request for an assessment of the programme for the purpose of obtaining a possible mitigation of the fine and (*iii*) the criteria that the Authority intends to adopt in the framework of the assessment of ACPs for setting a mitigated fine.

The Italian Guidelines on sanctions 2014 also provide an additional factor, the 'amnesty plus' programme, under which the amount of the sanction can be reduced up to 50%. To benefit from the amnesty plus factor, the company needs to provide documents and information that appear crucial for ascertaining a separate antitrust violation, and the contribution falls within the scope of the leniency programme.

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[21] AGCM, *I794-ABI/SEDA*, provv. n. 26595, in Boll. 19/2017 section 363, 364 d).

[22] F. Ghezzi and G. D. Pini, supra note 11, at 23. ('*[T]he mere existence of a compliance programme will not be considered as a mitigating circumstance*.').

[23] AGCM, *I793-Aumento prezzi cemento*, provv. n. 26705, in Boll. 31/2017, section 350.

[24] AGCM, *I789-Agenzie di modelle*, provv. n. 26229, in Boll. 40/2016.

The company can also request a reduction of the fine in the light of its inability to pay. In that case, the company needs to demonstrate 'complete, reliable and objective' evidence that the fine would inevitably jeopardise its economic situation, putting it out of business. In two recent AGCM proceedings, *I793-Aumento Prezzi Cemento* and *I742-Tondini per cemento armato*, the AGCM granted a reduction of 50% of the fine to prosecuted companies due to the crisis of the relevant market.[25] In the *Tondini per cemento armato* proceeding, the company benefited from a further reduction of the fine due to an arrangement proceeding under Article 186bis of the Italian Bankruptcy Law. With respect to the duration of the infringement, paragraph 16 of the Italian Guidelines on sanctions 2014 specifies that for periods of less than a year, the ICA considers the effective months and days in which the antitrust violations occurred.

In summary, the Italian Guidelines take into account both EU and Italian legislation and reflect recent case law and both AGCM and EU Commission's practice in defining the criteria and methodology to calculate the amount of antitrust sanctions. The Italian Guidelines avoid adopting a mere arithmetic exercise opting for a more complex and comprehensive set of rules.[26]

The ICA through these Guidelines clearly aimed not only to provide a certain degree of predictability of the antitrust fines but also to increase the level of the sanctions to deter undertakings from engaging in anticompetitive conduct. The differences between the EU and Italian Guidelines are significant mainly due to the fact that the EU Guidelines date back to 2006. Moreover, the ICA made some innovative choices, compared to the content of the EU Guidelines, such as the inclusion of the adoption of an effective ACP among the possible mitigating circumstances that shall be taken into account for the calculation of the fine.

#### 8.2.1.3 Law No. 689/1981

As outlined above, in addition to the Law and the Italian Guidelines, the ICA needs to consider Law No. 689/1981 in calculating the antitrust sanction. In particular, Law No. 689/1981 specifies that, when setting fines, several elements shall be taken into consideration, including the gravity of the violation, the action undertaken by the company to eliminate or reduce the consequences of the violation, the economic conditions of the company in addition to its personality. Article 6 of Law No. 689/1981 establishes that *in violations punished with an administrative sanction, each one is responsible for his conscious and voluntary acts or omissions*.

In addition, Article 28 of Law No. 689/1981 provides a statute of limitation of 5 years. The Italian Supreme Administrative Court (*Consiglio di Stato*) recognised

[25]AGCM, *I793-Aumento prezzi cemento*, provv. n. 26705, in Boll. 31/2017 section 358, 359; AGCM, *I742-Tondini per cemento armato*, provv. n. 26686, in Boll. 30/2017, section 347.

[26]N. di Castelnuovo, Italian Competition Authority issues guidelines on antitrust infringement fines, Lexology (Nov. 4, 2014) available at https://www.lexology.com/library/detail.aspx?g=6d53ff6e-e28c-4595-93d2-f5049434b821. Accessed 6 November 2018.

that the limitation period starts when the infringement ends,[27] although in many cases this moment is not easy to identify.[28]

### 8.2.2 Types of Sanctions: Administrative Sanctions, Leniency Programme and Civil Damages

As already pointed out, in Italy the most important tool to enforce competition law provisions is the administrative fine imposed by the ICA, which, as outlined above, cannot exceed 10% of the undertaking's turnover from the previous financial years.[29] As described above, the amount of the fine is set according to Italian Guidelines, the Law and Law No. 689/1981. In case of recidivism, the AGCM can, under both the European and Italian Guidelines, increase the fine up to as much as 100% of the basic amount, considering the nature and the relation between the ascertained violations.

Moreover, both the ICA and judges can grant interim measures in antitrust cases/investigations.

It should be borne in mind that the ICA's sanction and decisions can be challenged before the Administrative Court of Latium (called *Tar Lazio*); the Tar Lazio's decision can be appealed before the Supreme Administrative Court (called *Consiglio di Stato*).

Most serious antitrust violations are secret cartels; a cartel participant can obtain the immunity or a reduction of fine by applying for leniency. Third parties can also file damages actions against all participants in the antitrust violation before civil courts.

#### 8.2.2.1 Interim Measures

Civil courts, as well as the AGCM, can order interim measures. According to Article 14-*bis* of the Law, the ICA has the power to issue *ex officio* interim measures when there is the risk of serious and irreparable damage to competition. Such a risk exists where a material change in the structure of the affected market can occur and where that change is considered irreversible or not easy to reverse. In 2016, the ICA issued an interim measure during an investigation in the local transport sector, which imposed on the incumbent service provider the obligation to provide the local transport agency with all necessary information to conclude a bidding procedure.[30]

Civil courts can also grant interim measures under Article 700 of the Italian Civil Procedure Code. In that event, the party that requires the interim measure needs to demonstrate the *fumus boni iuris* (namely that the claim appears grounded) and the *periculum in mora* (namely that there is an actual risk of serious and irreparable

[27] Consiglio di Stato, n. 3291/2015.

[28] Consiglio di Stato, n. 3291/2015.

[29] Article 15 of the Law.

[30] See AGCM, *A495-Gara TPL Padova*, provv. n. 26610, in Boll. 20/2017.

damage pending the decision on the merit). For example, in 1995, the Court of Appeal of Milan and the Court of Appeal of Rome ordered some undertakings to stipulate certain agreements.[31] In 1999, the Court of Appeal of Milan ordered the defendant in an antitrust civil action to cease and desist from continuing to participate in the alleged cartel activities.[32]

#### 8.2.2.2 Sanctions for Cartels and Leniency Programme

Cartels in violation of Article 2 of the Law and Article 101 TFEU represent the most serious antitrust offence. In addition, to be unenforceable and void, horizontal agreements are usually punished by an administrative fine, which shall not be lower than 15% of the value of the sales of goods and services directly or indirectly related to the violation.[33] As observed above, the ICA may, for the most serious violations, include in the basic amount the *entry fee*, which can increase the fine up to 25% of the value of sales. On 27 February 2014, the AGCM fined Roche and Novartis more than 180 million euros for engaging in a cartel in relation to the treatment of vascular eyesight conditions. Specifically, the AGCM imposed a sanction of 90 million euros on Roche and of 92 on Novartis applying a basic amount set at 25/30% of the value of the affected goods and the *entry fee*.

In addition to the mitigating circumstances described above, the participants in horizontal agreements and concerned practices in violation of Article 101 TFEU and/or Article 2 of the Law can benefit from a leniency programme. As stated above, in Italy, the leniency programme was introduced and regulated in February 2007 through the adoption of the *Leniency Notice*, as last amended in 2013. Under the Leniency Notice, only the first cartel participant that provides crucial evidence and information on the antitrust violation to the ICA benefits from full immunity from the fine. The immunity is not granted if the AGCM already knows about the cartel. In that case, the undertaking may benefit from a reduction of the fine, which is usually up to 50%. Generally, the percentage of fine reduction is assessed considering the kind of evidence provided by the applicant and the timing of submission of such evidence. According to paragraph 6 of the Leniency Notice, the ICA does not consider the disclosure of previously unknown circumstances related to the gravity or duration of the cartel.

In short, to benefit from a reduction of sanction, the leniency applicant has to provide the AGCM with evidence that significantly strengthens the evidence already in possession of the AGCM. In Italy, leniency programmes are not largely used. In 2016, only one antitrust proceeding was opened after the submission of a leniency application,[34] whereas in 2017 no leniency programme appears submitted to the ICA.

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[31] *See* Court of Appeal of Milan, 29 April 1995; Court of Appeal of Rome, 12 February 1995.

[32] Court of Appeal of Milan, 29 September 1999.

[33] *See* Italian Guidelines on sanctions 2014, paragraph 12.

[34] AGCM, *I789-Agenzie di modelle*, provv. n. 26229, in Boll. 40/2016.

#### 8.2.2.3 Sanctions for Abuse of Dominance Position

With respect to the abuse of dominant position conduct in violation of Article 102 of the TFEU and/or Article 3 of the Law, the ICA seems to impose fines that are much lower than those imposed on cartels. In 2016, the ICA closed three antitrust investigations under Article 102 of the TFEU and/or Article 2 of the Law. In only one case, the AGCM imposed a fine that exceeded 5 million euros,[35] while in the other two investigations the AGCM accepted the commitments proposed by the undertakings.[36]

#### 8.2.2.4 Civil Damages

In order to seek compensation for antitrust damages, individuals need to file a complaint before the specialised civil courts for business matters, which are competent for actions for damages for infringements of competition law. Pursuant to Legislative Decree No. 3/2017, implementing Directive 2014/104, only three specialised courts for business matters are competent for such actions, namely the ones of Milan, Rome and Naples.

Private civil actions may be based on the AGCM's decision (these are also called follow-on actions) or may be independent of an administrative antitrust proceeding (these actions are called stand-alone actions). Civil courts do not consider the ICA's fine when calculating the damages suffered by third parties.

Italian law only provides for compensatory damages; punitive damages cannot be required before an Italian court. Under Article 14 of the 2017 Legislative Decree, antitrust damages shall be calculated following general civil law rules, in particular pursuant to Articles 1223, 1226 and 1226 of the Italian Civil Code (C.C.).

Currently, Italian courts award merely compensatory damages limited to the plaintiff's actual loss, loss of profit and interests from the date the infringement occurred. Whenever the antitrust damages suffered cannot be precisely quantified under the rule of Article 1226 C.C., the court can award damages compensation calculated on an equitable basis.

### 8.2.3 Punitive and Criminal Sanctions

As mentioned above, in Italy, punitive damages or other forms of over-compensation are not available. The Italian Supreme Court had always stated, in general terms, that *punitive damages appear to be against the public law order*'[37]; however, in 2017, the Supreme Court, in a joint session, ruled that *the legal concept of punitive damages is not essentially incompatible with the Italian legal system.*[38]

[35] AGCM, *A480-Incremento Prezzo Farmaci Aspen*, provv. n. 26185, in Boll. 36/2016.

[36] AGCM, *A482-E-Class/Borsa Italiana*, provv. n. 25859, in Boll. 4/2016; AGCM, *A486-ENEL Distribuzione-Rimozione Coatta Dispositivi Smart Metering*, provv. n. 26167, in Boll. 31/2016.

[37] *See* Court of Cassation No. 1183/2007.

[38] Court of Cassation Joint Session No. 16601/2017.

In our jurisdiction, there are no specific prohibitions imposed by criminal law that concern the main anticompetitive conduct, such as agreements in restraint of trade and abuse of dominant position. Nevertheless, in principle, in our jurisdiction, some conducts that infringe competition law may at the same time result in an infringement of criminal law provisions. Bid rigging, speculative operations on goods and market rigging are three examples of criminal and competition law infringements. Bid rigging, for example, may lead to criminal liability under Article 353 of the Italian Criminal Code. The sanctions include both fines and imprisonment.

In prosecuting cartels, the ICA has supported government efforts in contrasting corruption and improving efficiency in public procurement, in close co-operation with ANAC (the Anti-Corruption Agency), the judiciary and procurement agencies. This commitment is proven by a number of investigations in bid rigging. Recently, in February 2017, the Supreme Administrative Court (Consiglio di Stato) upheld a bid-rigging decision in the market of school cleaning services, which is worth 1.6 billion euros.[39]

As outlined above, the ICA has recently signed, with the Rome and Milan Prosecutors, the *Protocol between the ICA and the Prosecutor's Office of Rome*, of 10 January 2018 and the *Protocol Between the ICA and the Prosecutor's Office of Milan,* of 11 January 2018, to facilitate the cooperation between the ICA and Prosecutor's offices to prosecute antitrust and criminal conduct. Under these Protocols/Memoranda of Understanding, it is possible to open a criminal investigation in parallel with the antitrust proceeding. In particular, it may be opened a criminal investigation against individuals who, on behalf of the company, violated criminal law and whose conduct led the company to violate competition law. An antitrust proceeding can be open against the company that engaged in the anticompetitive conduct.

## 8.3 Liability

Italian competition law does not provide for fines for individuals, such as managers and employees of undertakings involved. Only undertakings can be fined for an antitrust violation. As outlined below, individuals can be prosecuted only if the antitrust violation represents a criminal offence. The principle of *single economic unit* recognised in Europe does not explicitly appear in the Italian antitrust enforcement framework, while the association of undertakings can be responsible for an antitrust violation under Article 15 of the Law. As described below, the ICA has often condemned associations of undertakings for engaging in collusive practices pursuant to Article 102 of the TFUE and/or Article 2 of the Law.

[39]OECD Annual Report on Competition Policy Developments in Italy 2016 (Dec. 5-6, 2017), available at https://one.oecd.org/document/DAF/COMP/AR(2017)33/en/pdf. Accessed 6 November 2018.

### 8.3.1 Parent Liability

As a preliminary remark, it should be noted that neither the Law nor the Italian Guidelines on sanctions 2014 provide specific rules with reference to the liability of parent companies for antitrust infringements of their subsidiaries. In this regard, the ICA seems to adopt a cautious approach, not having (at least fully) recognised the so-called principle of the *single economic unit*, which is well established at European level. As is well known, according to that principle, a parent company that exercises a decisive influence over its subsidiaries can be jointly liable for antitrust infringements committed by the latter, without the necessity to ascertain its direct involvement in the violation.

Following the adoption of the Italian Guidelines on sanctions 2014, the ICA has generally upheld its previous case law, imposing fines only on the single undertaking that materially committed the infringing conduct, even when the latter was controlled by another company. Recently, however, the ICA recognised the liability also of the parent company of the infringer subsidiary in a single decision on a vending market cartel: in particular, the Authority stated that, in the case of total or quasi-total control, and in the absence of proof to the contrary, it is presumed that a decisive influence of the parent company on the commercial behaviour of its subsidiary exists.[40] In light of this, in the case at issue, the Authority explicitly applied the ‘single economic unit’ principle established at the European level to some of the companies concerned by the proceedings.

It should be noted that the Italian administrative judge has partially overturned the above-mentioned ICA decision to apply the European notion of ‘single economic unit’, at least in the event that the parent company does not exercise a total control over its subsidiary; at the same time, however, the administrative judge confirmed the application of the notion of ‘single economic unit’ with reference to the cases of total or quasi-total control, as well as to the cases in which a decisive influence is exercised in practice.

Indeed, on the one hand, the Regional Administrative Court of Latium (*TAR Lazio*) stated that with reference to some of the companies involved in proceeding No. I783 (*Accordo tra operatori del settore vending*), the ICA had erroneously taken into account, for the determination of the sanction, the turnover of the subsidiaries over which the parent company did not exercise a total control, as the ICA did not give any evidence of a decisive influence exercised by the parent company on such subsidiaries (which could not be automatically presumed due to the lack of a total control). In particular, the ICA had not proven a decisive influence of the parent company over its subsidiaries in the infringing behaviour of the latter.[41] Therefore,

[40] AGCM, *I783-Accordo tra operatori del settore vending*, provv. n. 26064, in Boll. 21/2016, especially at paragraph 402.

[41] See, in this respect, Regional Administrative Court of Latium, judgments No 9057 of July 20$^{th}$, 2017 and No 9062 of July, 28$^{th}$, 2017. It should be noted, however, that both judgments have been appealed before the Council of State: the appeals are currently pending.

with reference to the companies at stake, the Authority had to re-evaluate the sanctions in the light of the correct identification of the relevant turnover, namely one of the subsidiaries.[42]

On the other hand, the Regional Administrative Court of Latium confirmed the application of the 'single economic unit' principle with reference to another group of companies in the context of the same proceedings because in the paragraphs of the decision concerning the companies at stake, the Authority demonstrated the existence of decisive influence, on the part of the parent company, on the companies of the group that were not subject to its total or quasi-total control.[43]

### 8.3.2 Associations of Undertakings

As well as in Europe, associations of undertakings can be responsible for antitrust violations. In Italy, the ICA has always paid a lot of attention to associations of undertakings. Recently, the ICA has fined several associations for engaging in collusive practices. In July 2017, the AGCM sanctioned both the main cement producers and their association for participating in a cartel. According to the AGCM, the association of undertakings AITEC (Associazione Italiana Tecnico Economica del Cemento) was crucial in the cartel practice.[44] In April 2017, the ICA ascertained an antitrust infringement committed by the association of Italian banks, *Associazione Bancaria Italiana* (ABI), for coordinating the set of banks activity in a restrictive agreement.[45] However, the ICA did not impose a sanction on ABI due to the non-serious nature of the agreement and the uncertainty of the normative context. Historically, the ICA has highly considered the activities of associations of professionals to ensure a competitive stance in the market of professionals. In January 2018, the ICA opened an investigation against the Bar association of Milan under Article 2 of the Law.[46] In 2017, the ICA condemned the association of notaries of Rome, Velletri and Civitavecchia for engaging in an anticompetitive conduct under Article 2 of the Law.[47] Specifically, the ICA argued

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[42]See AGCM, *I783B1-Accordo tra operatori del settore vending-rideterminazione della sanzione Sellmat*, provv. n. 27306, in Boll. 33/2018 and *I783B2-Accordo tra operatori del settore vending-rideterminazione della sanzione Supermatic*, provv. n. 27275, in Boll. 30/2018.

[43]See Regional Administrative Court of Latium, judgments No 9061 and No 9065 of July 28th, 2017. Also, these judgments have been appealed before the Council of State: the appeals are still pending.

[44]AGCM, *I793-Aumento prezzi cemento*, provv. n. 26705, in Boll. 31/2017.

[45]AGCM, *I794-ABI/SEDA*, provv. n. 26595, in Boll. 19/2017 section 363, 364 d).

[46]AGCM, *I803-Condotte restrittive del consiglio notarile di Milano*, provv. n. 26327, in Boll. 2/2017.

[47]AGCM, *I797-Consiglio Notarile di Roma, Velletri e Civitavecchia/Delibera in tema di distribuzione del lavoro nella dismissione pubblica*, provv. n. 26625, in Boll. 24/2017.

that the association of notaries fixed the prices and acted in a manner that eliminated competition in the relevant market.[48]

With respect to the calculation of sanctions imposed on associations of undertakings, the ICA has adopted a different approach from the EU practice. In setting the amount of a fine, the ICA considers as the value of sales the overall value of the membership fees paid by the members of the association. The Italian Guidelines specify that in the case of associations of undertakings, 'the value of sales' of goods or services considered in calculating the sanction is equal to the total amount of the membership fees.[49] In Europe, instead, under Regulation 1/2003, the fine is based on the value of the sales of its members.

However, the Italian administrative courts recognised that the membership fees do not represent the upper limit to set a fine imposed on an association. In line with the European principles, the ICA can consider the total turnover instead of the total amount of the membership fees to ensure the proportionality, effectiveness and deterrent effect of the sanction.[50]

## 8.4 Conclusions

Although the current sanction regime could be improved, it is to be noted that significant steps have been taken over the last years, as shown by some of the issues illustrated in the previous paragraphs.

By way of conclusion, some brief reflections can be made with regard to possible changes in the enforcement system.

In this regard, we point out, firstly, that we are not favourable to individual antitrust sanctions, i.e. to sanctions imposed on individuals, in addition to corporate sanctions. On the one hand, labour law provisions already enable undertakings to take actions, including dismissal, against the employees who participated in antitrust infringements. On the other hand, other tools, such as the adoption of an antitrust compliance programme, seem to be more effective for preventing violations of antitrust law, through an increase of the awareness of the members of the undertaking with reference to the competition rules.

Secondly, we would be contrary also to the introduction of criminal sanctions for the infringement of competition rules. Indeed, on the one hand, the personal nature of criminal sanctions, which in our jurisdiction are targeted on the personality of the condemned person, could not fit into other categories of persons, namely legal persons, which are generally responsible for antitrust infringements. On the other hand, the high severity of criminal sanctions does not seem justified in the case of the complex and controversial conducts that usually result in competition law breaches.

[48] *Id.*

[49] Italian Guidelines on sanctions 2014, paragraph 10.

[50] Tar Lazio n. 8346, 30 July 2014; Tar Lazio n. 1757, 25 February 2011.

In any case, as anticipated, the existing system could be improved in several respects. Indeed, even though the Guidelines represent a step forward about legal certainty with reference to the methods of calculation of sanctions adopted by the ICA, in our opinion the Authority still enjoys excessive margins of discretion, which should be reduced by amending the said Guidelines, to provide clearer and more specific guidance as to the quantification of sanctions. Moreover, a more flexible application of sanctions towards single-product undertakings would be advisable. In this respect, the current Guidelines do not seem to consider the specificity of such undertakings, which could be excessively penalised by high sanctions ignoring the importance to the survival of the undertakings themselves of the product involved in the competition infringement.

# Spain

# 9

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## 9.1 Introduction

This report provides a detailed description and analysis of the competition law enforcement system in Spain as it stands.

The enforcement of competition rules in Spain is entirely administrative when it is applied by the competition authorities. In parallel, civil courts can also establish the infringement of competition rules and annul contractual provisions or award damages. Additionally, certain conducts can also be prosecuted by ordinary judges through criminal proceedings, especially those related to the manipulation of public tenders (bid rigging).

Notwithstanding this, it cannot be considered that there is a criminal or quasi-penal enforcement, taking into account the small amount of cases where criminal law provisions have been cited as of today.

In parallel to public enforcement, private enforcement has been rapidly increasing in Spain since the entry into force of the transposition of the damages Directive 104/2014 by means of Royal Decree 9/2017.[1]

[1] About private enforcement in Spain see F. Marcos, Transposition of the Antitrust Damages Directive into Spanish Law, IE Law School Working Paper AJ8-241-I, 2018.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_9

The statutory provisions concerning competition law sanctions and the relevant guidelines issued by the Spanish national competition authority (*Comisión Nacional de los Mercados y la Competencia*—henceforth CNMC) are the following:

– National Competition Commission. Communication on the Leniency Program. 19 June 2013;
– National Competition Commission. Communication on conventional termination of disciplinary proceedings, of 28 September 2011;
– National Competition Commission. Communication on the quantification of fines, of 6 February 2009. However, the Supreme Court annulled this Communication in its Judgment of 29 January 2015.[2]

## 9.2 Administrative Proceedings

In Spain, there is a national competition authority, the *Comisión Nacional de los Mercados y la Competencia* (hereinafter CNMC), and regional authorities involved in enforcing and punishing anticompetitive conducts. Catalonia, Galicia, the Valencian Community, Aragon, Castile and Leon, the Basque Country, Extremadura and Andalusia are the Autonomous Communities that have a regional competition authority with a body in charge of the investigation and another one in charge of the decisions.

Some Autonomous Communities (Murcia, Canary Islands, Madrid and Navarra) only have a body in charge of the investigation, and the CNMC acts as the decision body. Act 1/2002, of February 21, on the Coordination of Competences of the State and the Autonomous Communities in matters of Defense of Competition (hereinafter Act 1/2002) establishes assignment and coordination mechanisms, as well as a mechanism for the settlement of conflicts.[3] The cases are assigned to the competition authorities of the Autonomous Communities when the investigated practice produces effects only in their territory and to the CNMC when the investigated practice has a supra-autonomous scope or when it affects the national market as a whole. In 2016, a total of 91 cases were submitted to the case assignment mechanism, of which 79 were assigned to Autonomous Communities' authorities.[4] In

[2]Spanish Supreme Court, 29 January 2015, S 2872/2015, BCN Aduanas y Transportes SA. More specifically, the Supreme Court stated that the calculation method for fines established by the Communication '*implies in most cases the establishment of an upward bias in the amount of the fine, which is contrary to the principle of proportionality, and the subsequent application of the 10% of the turnover as a mere way of correction*'. The interpretation of Article 63 (1) LDC then followed by the National Competition Commission was incompatible with Spanish administrative law and, in particular, with the principle that penalties must have a proper legal basis, which requires the '*legal predetermination of the upper and lower limits of fines*'.

[3]Act 1/2002, of February 21, on the Coordination of Competences of the State and the Autonomous Communities in matters of Defense of Competition, Official Gazette 2002, 46, 7148.

[4]CNMC, Activity report 2016.

2017, 83 cases were submitted and 70 were assigned to the competition authorities of the Autonomous Communities.[5]

## 9.3 Regulatory Fines

Anticompetitive behaviours may have to face economic sanctions. These fines may be imposed both on the company itself (legal entity) and on individuals who, being legal representatives or members of the governing bodies of the company, have taken part in the agreement or decision.

In addition, in accordance with Article 71 of Law 9/2017, of November 8, on Contracts of the Public Sector, by which the Directives of the European Parliament and Council 2014/23 and 2014/24, of February 26, are transposed into the Spanish legal system 2014 (hereinafter LCSP), being fined for the distortion of competition entails the prohibition of contracting with the public sector (only if the decision is final).

Since 2015, companies and individuals that have been fined for cartels or other serious Competition infringements can be banned from contracting with the public administration (Article 71 LCSP) for a duration of up to 3 years. This prohibition can be applied in addition to the sanctions described in the Spanish Competition Law (hereinafter LDC).[6] The prohibition will only apply if the decision of the competition authority is final. As of today, the prohibition has not been applied yet. In this respect, we need to highlight that as of today even in severe long-lasting bid-rigging cases, the Competition Authority is not imposing the prohibition.[7]

The goals of imposing competition law sanctions are not defined by statute. Neither the LDC nor the Regulation for the Defense of Competition (hereinafter RDC) refer specifically to the deterrent value that sanctions must have.[8]

However, the CNMC usually refers to the deterrent value of fines and, more precisely, to the 'the necessary deterrence' assuming that it is the objective that is sought when imposing sanctions.[9]

The primary goal of sanctions is to deter anticompetitive behaviour for the future and punish past infringements. Compensation for damages is left to the civil procedure. In fact, the CNMC considers deterrence and the principle of proportionality, which reinforces the idea that administrative sanctions are not intended to reach a high level similar to that which should perhaps be imposed if criminal proceedings were carried out.[10] When calculating the amount of the fine, both deterrence and proportionality are taken into account.

[5]CNMC, Activity report 2017.

[6]Law 15/2007, of July 3, on the Defense of Competition, Official Gazette 2007, 159, 28848.

[7]See for instance, CNMC, S/DC/0565/15 - Tenders for informatic services of July 26, 2018.

[8]Royal Decree 261/2008, of February 22, which approves the Regulation for the Defense of Competition, Official Gazette 2008, 50, 11575.

[9]See for instance, CNMC, S/DC/0562/15 - LV/MV Cables, November 21, 2017.

[10]See, in this regard, CNMC, S/DC/0562/15 - LV/MV Cables, November 21, 2017.

Furthermore, concerns about proportionality and dissuasion have not been theoretical. The CNMC has argued that in order to avoid sanctions being 'confiscatory', it should moderate the amount of some of its sanctions[11]:

> In this procedure, the principle of proportionality and the dissuasive purpose of the fine must be adapted to the fact that the conducts included in the file have been translated into nine infringements, with the participation of some of the companies in several of the conducts sanctioned here. This circumstance suggests modulating the dissuasive intensity of the fines that may correspond to each company, taking into account the other fines that would have been imposed as a result of the other infractions sanctioned in this same decision. Specifically, in order to guarantee maximum respect for the principle of proportionality, the dissuasive intensity of the penalties corresponding to the minor infractions of the companies that are present in various conducts of this file must be modulated downwards.

In fact, the CNMC tends to revise the sanctions that can be imposed to multiproduct companies, taking into account the amount of the turnover of each of the infringing companies in the affected market to determine their 'share of participation in the infringement'[12] and subsequently adapting the amount of the fine, taking into account that multiproduct companies would be severely harmed compared to single product companies.

In the recent decision, *Servicios informáticos*,[13] the CNMC adapted the fines in the following way when calculating the amount of the fines to be imposed on multiproduct companies:

> the sanction corresponding to the severity of the conduct and their participation in the infringement (2.1% [of the turnover of ACCENTURE in the year 2017]) is not imposed on ACCENTURE but rather a fine that is considered proportionate and sufficiently dissuasive of 300,000 euros.
>
> The same happens in the case of ATOS, to which the sanctioning rate of 5.0% that would correspond is not imposed, but rather a fine of 5,000,000 euros considered proportionate and sufficiently dissuasive.
>
> Likewise, the sanctioning rate that would correspond attending to the severity and characteristics of the infringement (2.5%) is not imposed on EVERIS, but rather a proportionate and dissuasive sanction of 800,000 euros.
>
> The sanctioning rate determined as seen in previous sections is not imposed on IBM neither (2.7%), but rather a proportionate and dissuasive sanction of 940,000 euros
>
> Finally, a penalty that is considered proportionate and dissuasive of 13,500,000 is imposed on INDRA, instead of applying the previously determined sanctioning rate of 7.80%.

[11] See hereto, CNMC, S/DC/0578/16 - Messaging and business parcels, March 8, 2018.

[12] See for instance, CNMC, S/DC/0562/15 - LV/MV Cables, November 21, 2017.

[13] CNMC, S/DC/0565/15 - Tenders for informatic services of July 26, 2018.

This approach has been criticised since the method of calculation is unclear and unpredictable reducing the legal certainty.[14]

The goals pursued by the CNMC impact the nature and magnitude of the sanction. Referring to proportionality and deterrence in a generic way and without specifying when a specific sanction is or is not proportionate, as previously stated, reduces legal certainty.

In the recent case, *Courier and business parcel services*, the CNMC reduced the amount of the 'theoretical' sanction by applying the principle of proportionality because the infringing parties had participated in multiple practices.[15] Therefore, if a company decides to voluntarily assume the risk of infringing the law, it would be economically more profitable for it to get involved in many agreements since benefits are obtained from all of them, but the sanction for each behaviour is lower.

Moreover, the CNMC does not quantify, or does barely quantify, the illegal benefits obtained by the infringing parties, which should be taken into account when assessing the proportionality of the imposed sanctions.

If we analyse the more recent sanctions of the years 2016–2018 imposed by the CNMC, the average sanctions amount to 2–6% of the turnover of the previous year for mono-product companies, even for long-term behaviours (of more than 10 years) and for very harmful cartels such as those affecting public procurement. When a mitigating factor is applied, the amount is even lower. In this regard, in a case affecting driving schools in Alcalá de Henares, the CNMC imposed a sanction representing 0.6% of the turnover of its members, although the conduct was qualified as a serious infringement.[16]

From the assessment of the sanctions imposed between 2013 and 2017, we can conclude that 2015 was a record year in terms of both fines (EUR 550 million) and the number of cases of cartels resolved (14). In this regard, it should be remembered that the CNMC became operational on 7 October 2013.

The five highest fines imposed in one procedure are the following:

1. Audi/Seat/VW dealers: EUR 131.4 million (2015)[17];
2. AIO: EUR 128.8 million (2016)[18];
3. Residues: EUR 98.2 million (2015)[19];
4. Dairy Industries 2: EUR 88.2 million (2015)[20];
5. Renfe Operadora: EUR 75.6 million (2017).[21]

[14]J. Costas, La imposición de multas por conductas anticompetitivas en España, in: A. Robles Martín Laborda, La lucha contra las restricciones de la competencia: sanciones y remedios en el ordenamiento español, 2017, pp. 11–79.

[15]CNMC, S/DC/0578/16 - Courier and business parcel, March 8, 2018.

[16]CNMC, SAMAD/07/2015 - Alcalá de Henares Driving Schools, December 15, 2016.

[17]CNMC, S/0471/13 - Audi/Seat/VW dealers, May 28, 2015.

[18]CNMC, S/DC/0504/14-AIO, May 26, 2016.

[19]CNMC S/0429/12- Residues, of January 8, 2015.

[20]CNMC, S/0425/12- Dairy industries 2, of February 26, 2015.

[21]CNMC, S/DC/0511/14 - Renfe operator, February 28, 2017.

The five highest fines imposed on individual undertakings are the following:

1. Renfe: EUR 65 million (2017)[22];
2. Prosegur: EUR 39.4 million (2016)[23];
3. Sca Hygiene: EUR 35 million (2016)[24];
4. Danone: EUR 23.2 million (2015)[25];
5. General Motors España: EUR 22.8 million (2015).[26]

The five highest fines imposed on individuals are as follows:

1. D. G.P. P.S.: EUR 40,000[27];
2. D. G.J. H.L.: EUR 37,000[28];
3. D. JL I.G.: EUR 36,000[29];
4. D. JP C: EUR 32,000[30];
5. D. JM MM: EUR 16,600.[31]

### 9.3.1 Parent Liability

Following European jurisprudence, in Spain, the parent company may be held jointly and severally liable for the wrongdoing of its subsidiary. As established in the Decision of the Competition Chamber of the CNMC, case number S/DC/0565/15—*Tenders for Informatic Services* of 26 July 2018 (p. 132), *when dealing with companies that are part of the same business group, it is appropriate to attribute joint and several liability*. The LDC establishes in its fourth additional provision: 'For the purposes of the provisions of this Law, a company is any person or entity that exercises an economic activity, regardless of the legal status of said entity and its mode of financing.' The definition of the concept of company in such broad terms allows to consider that the company, as an infringing subject of the competition rules, can be referred to an economic unit, and this empowers the competition authorities to hold the group or the parent company jointly and severally liable for anticompetitive behaviour incurred by any of the companies in the group, considering that they constitute the same company.

[22] CNMC, S/DC/0511/14 - Renfe operator, February 28, 2017.
[23] CNMC, S/0555/15 Prosegur-Loomis, of November 10, 2016.
[24] CNMC, S/DC/0504/14-AIO, May 26, 2016.
[25] CNMC, S/0425/12- Dairy industries 2, of February 26, 2015.
[26] CNMC, S/0471/13 - Audi/Seat/VW dealers, May 28, 2015.
[27] CNMC, S/DC/0584/16 - Media agencies, May 3, 2018.
[28] CNMC, S/DC/0584/16 - Media agencies, May 3, 2018.
[29] CNMC, S/0555/15 - Prosegur-Loomis, of November 10, 2016.
[30] CNMC, S/DC/0584/16 - Media agencies, May 3, 2018.
[31] CNMC, S/0555/15 - Prosegur-Loomis, of November 10, 2016.

However, the parent company cannot be held solely liable for the wrongdoing of its subsidiary under the constitutional principle of the individual nature of penalties, which distinguishes, on one hand, the concept of individual author breaching competition and, on the other hand, the concept of joint liability by exerting decisive influence over its subsidiary (for this reason being 'also' liable).[32]

The liability of the parent company is established through the economic unity doctrine. There is a presumption *iuris tantum* that the parent exerts a decisive influence in case of 100% participation of the parent company in the subsidiary (Article 61.2 LDC).[33]

The compliance defence (i.e., that all reasonable efforts to prevent the violation were taken) to reduce/avoid the fine is not available. It will only avoid the sanction if the parent company demonstrates that it did not exercise a decisive influence on its subsidiary.

The presumption that a parent company exercises decisive influence over a wholly owned subsidiary is rebuttable (*iuris tantum*). In other words, it is not absolute. Companies can present the evidence they deem appropriate against it. This has also been repeatedly pointed out by the Board of the CNC and the Competition Chamber of the CNMC, indicating that this presumption is a specific element of the competition law, corresponding in its case to the parent to invalidate said presumption.[34]

Therefore, the parent company can avoid joint and several liability if it manages to prove the autonomous behaviour of its subsidiary (the non-existence of decisive influence). This is why, in structural changes (merger, absorption), the new parent company is not usually required to respond joint and severally for the infringement.

As previously stated, the parent company is not independently fined from its subsidiary in case of joint and several liability, unless his direct participation in, or knowledge of, the infringement is demonstrated. As the CNMC points out: 'The joint liability of the parent company is not determined by its direct or indirect participation in the infringement, not even for having incited its subsidiary to commit it, but rather from the fact that both companies form a single economic unit for the purpose of the competition rules. If the investigation proves the participation or knowledge of the parent company of the investigated facts, the parent company will be held solely, not jointly, liable.'[35]

[32]See, in this regard, the Judgment of the High Court of 28 July 2017, case 7/2015.

[33]CNMC, S/DC/0504/14-AIO, May 26, 2016 FD 5.

[34]CNC, January 21, 2010, S/0084/08 Gel Manufacturers; July 28, 2010, S/0091/08, Sherry wines of Jerez; July 31, 2010, S/0120/08 Freight Forwarders and June 24, 2011, S/0185/09, Fluid Pumps, S/0428/12 Palés, CNMC, September 22, 2014 S/0453/12, Railway bearings December 4, 2014.

[35]CNMC, S/DC/0504/14-AIO, of May 26, 2016, p. 121.

### 9.3.2 Associations of Undertakings

When an association of undertakings breaches competition law, the association is sanctioned. The members will only face the amount of the fine when the association is insolvent or when the companies do not cooperate with the association to face the sanction (subsidiary liability), as established in Article 61.3 LDC.

However, if the members have also taken part in the infringement, they will also be sanctioned, not because they are part of the association but because they are infringing the law themselves.

Associations may request financial support from its member undertakings to pay the fine directly—asking for a contribution—or indirectly—for example, increasing the share or cost of being a member.

When the members do not provide sufficient support to face the payment of the fine imposed on the association, Article 61.3 LDC establishes that the CNMC may require the payment from any of the companies whose representatives are members of the governing bodies of the association or, subsequently, from any member of the association operating in the market in which the infringement occurred.

In accordance with Article 63 LDC, for the calculation of the sanction, the total turnover of associations will be determined taking into account the turnover of its members. Therefore, fines imposed on associations of undertakings reflect the turnover of its members and not of the association itself.

If it is not possible to calculate the aforementioned turnover, the infringement will be sanctioned in the following way:

a) minor infractions with a fine of EUR 100,000 to EUR 500,000;
b) serious infractions with a fine of EUR 500,001 to EUR 10 million;
c) very serious infractions with a fine of more than EUR 10 million.

### 9.3.3 Representatives

Article 63.2 LDC provides that when the offender is a legal entity, a fine of up to EUR 60,000 may be imposed on each of their legal representatives or on the individuals that make up the governing bodies that have participated in the agreement or decision.

In addition, in certain circumstances, criminal sanctions can be imposed on those persons that infringe Article 262 of the Criminal Code.[36] However, as mentioned above, the criminal prosecution and proceedings for anticompetitive behaviours have been very limited in Spain.

Individual sanctions can, in principle, be imposed for the anticompetitive practice since Article 63.3 of the LDC does not refer to any specific practice.

[36] Organic Law 10/1995 of 23 November concerning the Criminal Code, Official Gazette 1995, 281, 33987.

The sanctions that are imposed by the competition authorities based on the LDC are imposed jointly in the same decision on both undertakings and individuals.

Related to the administrative sanction, individuals and companies are sanctioned in the same decision. Therefore, it is foreseeable that if one of them appeals the sanction, it is done jointly and that it benefits both because they are related.

Although the former Competition Act of 1989 already provided for a sanctioning regime for executives with a maximum of EUR 30,000, individual sanctions were quite rare until the year 2015. In 2016, the competition authority, however, started to impose individual sanctions; they were imposed on four cases.

Nevertheless, the CNMC has lately increased the sanctions imposed on individuals. Whereas in *Railway Infrastructures* individual sanctions were between EUR 4000 and 10,000, in media agencies they reached the amount of EUR 30,000–40,000.[37]

Individual administrative sanctions have been used only very recently, so there are no studies on their effectiveness. In this respect, it must be remembered that until 2016, in which it seems that there has been a change of criteria, they had only been scarcely imposed.

There is not a specific leniency programme in place for employees. In fact, the leniency programme is designed for companies. Notwithstanding this, in practice the request is understood to be carried out by the company and benefits both the legal entity and the employees.

However, nothing prevents the request of an employee who may be sanctioned for anticompetitive behaviour. As a matter of fact, the identification data that must be provided are indicated in Section 21.a of the Communication of 19 June 2013, of the National Commission of Competition, on the Leniency Program.

As stated in the Communication on the Leniency Programme of the CNMC, if an undertaking lodging a leniency application extends the application to its legal representatives and to the members of its governing bodies that have taken part in the cartel practices, the CNMC will extend the leniency granted to the applicant undertaking, provided the said individuals also cooperate with the CNC to establish the facts in accordance with the requirements of the leniency programme.

A corporate leniency application can have an impact on individual sanctions because their employees—mostly managers—will not be sanctioned for their wrongdoing if they request for leniency together with the company.[38]

At the criminal level, there is no evidence that sanctions have been imposed in relation to the LDC and the Criminal Code.

In the case of opting for criminal proceedings, a separate procedure should be followed. In criminal proceedings, both the company and individuals can be held responsible for bid-rigging cases (Article 262 of the Criminal Code), as described below.

[37]CNMC, S/0519/14 - Railway infrastructures, June 30, 2016 and S/DC/0584/16 - Media agencies, May 3, 2018.

[38]See for instance CNMC, S/DC/0578/16 - Courier and business parcels, March 8, 2018.

Following the 'ultima ratio' principle, criminal proceedings for an infringement of Article 262 of the Criminal Code require a 'plus' of criminality. According to this principle, criminal sanctions must be limited to the most serious infringements and can only be applied when other means of protecting the legal asset affected have not been effective.[39] The Spanish Supreme Court has established that *although the vicissitudes caused after the conclusion of the auction, which are carried out by the defendants, obstructing until the exhaustion the normal course of the execution, which supposes a flagrant abuse of right, to delay the process established by the civil law, this is nothing but a censurable behaviour from the prism of the 'bona fides' procedural, but it does not reach the relevance of criminal effects*.

If we opt for sanctioning individuals according to Article 262 of the Criminal Code, we have to take into account that criminal judges are not bound by administrative decisions. However, there may be a link between the decision sanctioning the undertaking and the one addressed to the individual person in the case of a successful legal challenge before a court related the facts considered proven. If an administrative decision is appealed and a judge of the contentious administrative order considers the facts to be proven, it is unlikely that the criminal judge will not consider them proven as well.

### 9.3.4 Determination and Calculation of Sanctions

The LDC and RDC establish the main principles for the determination and calculation of the fines.

According to the LDC, the fine is calculated in a two-step procedure: first, it is necessary to determine the level of illegality of the infringement that will determine the percentage within the scale of 0–10%. For this, the general factors are taken into account: the size and characteristics of the market affected by the infringement, the market share of the responsible company or companies, the scope of the infraction, the duration of the infringement, the effect of the infringement on the rights and legitimate interests of consumers and users or on other economic operators, the illicit benefits obtained as a consequence of the infringement. Once they have been analysed, it is determined if the behaviour is at a low, medium or high level of the penalty arc.

In a second step, the CNMC adapts the fine of each company individually by applying mitigating and aggravating factors. Aggravating circumstances are as follows: the repeated commission of infractions typified in the LDC, the position of the person responsible or the instigator of the infringement, the adoption of measures to impose or guarantee compliance with competition regulation; the lack of collaboration or obstruction of the inspection work, without prejudice to the possible consideration as an independent infringement, as provided for in Article 62 LDC.

[39] Decision of the Supreme Court (Criminal Chamber, Section 1), number 1141/2016 of 30 June) in which the Supreme Court concludes that a cartel sanctioned by the CNMC are not constituting the offense of Article 262 of the Criminal Code.

The LDC includes the following as mitigating circumstances:

1. performance of actions that put an end to the infringement;
2. the non-effective application of the prohibited behaviour;
3. the performance of actions tending to repair the damage caused;
4. the active and effective collaboration with the CNMC carried out outside the cases of exemption and reduction of the amount of the fine regulated in Articles 65 and 66 LDC.

As mentioned above, the Supreme Court annulled in the year 2015 the existing Communication for the quantification of fines. More specifically, it pointed out:

> It suffices for these purposes to remember that the constitutional guarantees (Article 25.1 Spanish Constitution) regarding the predetermination of administrative sanctions in exhaustive terms would make it very difficult for them to be compatible with a system according to which the economic sanctions could be fixed without being previously established by law, and for such purposes, the law determines a range or scale that includes the maximum fine. A system that did not set that scale and only contained a forecast to later temper the result of the calculation reducing it to a mere limit would face serious problems of compatibility with those constitutional guarantees.[40]

The CNMC has not issued a new communication regarding the calculation of the amount of the sanctions, nor has it proceeded to its regulation through any legislative instrument that could replace said Communication.

As of today, the methodology currently applied by the CNMC when calculating fines has been harshly criticised by the doctrine, and it is likely that in the future, the CNMC will issue a new communication to calculate the penalties.[41] However, it must be pointed out that the Audiencia Nacional, the High Court that is the first judicial instance after the administrative proceedings, has rejected all the appeals lodged against the methodology described above, considering, based on the *Treuhand* case law of the Court of Justice of the EU, that the CNMC must not specify the numerical data used to calculate the fine, only the circumstances taken into account to determine the gravity of the infringements.[42]

Act 1/2002 states which body should know about the infringement. So if an autonomous authority sanctions the infringement, the CNMC cannot sanction the same conduct.

However, it is not foreseen how sanctions imposed by other bodies against the same person for the same conduct might affect the decision of the CNMC.

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[40] Spanish Supreme Court, 29 January 2015, S 2872/2015, BCN Aduanas y Transportes SA.

[41] J. Costas, La imposición de multas por conductas anticompetitivas en España, in A. Robles Martín Laborda, La lucha contra las restricciones de la competencia: sanciones y remedios en el ordenamiento español, 2017, pp. 11–79.

[42] See, inter alia, Judgements of the High Court of 26 July 2018, appeal n. 740/2017, of 26 July 2018, appeal n. 66/2016, of 13 July 2018, appeal n. 119/2016, of 10 July 2018, appeal n. 348/2017; see CJEU, case C-194/14 P, AC-Treuhand AG v European Commission, ECLI:EU:C:2015:717.

Nevertheless, the CNMC can moderate the sanction to comply with the principle of proportionality.

The imposition of a sanction on an employee might not affect the sanction that will be imposed on an employer or vice versa. However, it is foreseeable that if the employee is sanctioned, the employer will face a sanction too.

Nevertheless, the sanctions imposed on individuals and legal entities (we understand this as the employer) are independent of each other. In addition, only individuals that are legal representatives or persons that make up the governing bodies that have intervened in the agreement or decision will be sanctioned. In other words, a 'regular employee' will not be sanctioned by competition authorities. However, each company may establish codes of internal conduct with their corresponding penalties. In these cases, the sanction will be a consequence of having infringed what is provided in an internal regulation provision and that escapes the power of competition authorities.

### 9.3.5 Mitigating and Aggravating Factors

In Spain, a compliance programme is understood to serve to prevent the company from infringing the competition regulations. However, its existence does not automatically give right to a reduction of the sanction.[43]

Nevertheless, although the LDC does not say anything about applying a mitigating circumstance due to the existence of a compliance programme, the Criminal Code provides that (Article 31 quarter) of the implementation of a compliance programme may mitigate the person's legal responsibility:

> Only the following activities will be considered as mitigating circumstances of the criminal liability of legal entities when they are carried out after the commission of the crime and through their legal representatives: [. . .] d) To have established, before the beginning of the hearing, effective measures to prevent and discover crimes that could be committed in the future with the resources or under the coverage of the legal entity.

Therefore, a potential reduction of the fine due to an effective compliance programme might be applied analogically if the company can provide sufficient evidence about the existence and application of internal controls and severe disciplinary sanctions in order to ensure the respect of the law under any and all circumstances.

This has been argued in certain competition proceedings in the past 3 years.[44] In the case *Mudanzas internacionales (international removals)*, the amount of the sanction was reduced by 0.25%, thanks to the adoption of a compliance programme to prevent infringements of the LDC and the TFEU. The CNMC understood that, although the introduction of a compliance programme is not admissible as a

[43] CNMC, S/DC/0557/15 - Nokia, June 8, 2017, FD 5, p. 87.

[44] CNMC, S/DC/0544/14 - International removals September 6, 2016.

mitigating circumstance, depending on the circumstances it can be considered—as in fact it was, by reducing the amount of the fin from 5% to 4.75%—as a moderating or modulating element of the sanction.

The aggravating circumstance recidivism is expressly included in the LDC, and it has been applied by the CNC and now CNMC in certain specific markets, such as the systems of management of author rights; the CNC and now the CNMC have imposed sanctions in more than one occasion on the same undertaking for similar conducts. In the case GEA and author rights management systems of the year 2016, the CNMC expressly stated that GEA had already been sanctioned for a similar conduct 2 years before.[45]

This aggravating circumstance is applicable to both companies and individuals. Therefore, in case of recidivism, the amount of the individual sanction could also be increased.

In the decisions in which the CNMC applies recidivism as an aggravating circumstance, the amount of the sanction has been increased by 15%. However, there are many decisions that do not describe how recidivism is taken into account or if it is going to have any additional effect.

To date, recidivism has not been applied to any individual person.

In relation to groups of companies, it should be noted that the infringement of a sister company will not turn the investigated company into a recidivist.

## 9.4 Criminal Fines and Imprisonment

In Spain, the system that regulates anticompetitive infringements is mainly administrative. However, under Article 262 of the Criminal Code, the manipulation of public tenders is considered a felony. In such cases, the criminal courts can impose additional custodial sentences (between 1 year and 3 years), fines (12–24 months) and special disqualifications to participate in judicial auctions or public tenders (between 3 years and 5 years). The latter might be imposed on both individuals and legal entities.

Article 262 of the Criminal Code is similar to the provisions of the Spanish Competition Act. However, the mentioned provision of the Criminal Code only punishes three types of behaviour related to bid rigging:

- requesting gifts or promises not to take part in a public auction or tender;
- trying to push other bidders away using threats, gifts, promises or any other means;
- colluding with other bidders in order to alter the price of the auction/tender or fraudulently abandoning the auction/tender after being awarded.

[45] CNMC, S/0455/12 – GEA and author's rights management systems, May 12, 2016 (p. 85) and, S/0444/12 - GEA, June 12, 2014.

All three behaviours entail an artificial manipulation of the bidding blocking the correct functioning of the tender because the contract is not awarded to the best offer. For instance, this may mean, among other possibilities, that the price has been artificially increased, that other commercial conditions have been agreed upon by the bidders prior to opening the procurement envelopes (which would fit in the infringement indicated in Article 1.a LDC) or that there is a market sharing (prohibited in Article 1.c LDC).

Additionally, Articles 284 and 285 of the Criminal Code punish the manipulation of prices that limits free competition through privileged information, fraud, error, violence or coercion, or misinformation.

According to Article 31 bis of the Criminal Code, criminal sanctions may be imposed on corporations if the company has benefited from the infringement (as it is said, *societas delinquere et puniri potest*). Exactly, the companies are accountable under following circumstances:

- when the crimes have been committed in the name or on behalf of the company itself, and for their direct or indirect benefit, by their legal representatives or by those acting individually or as members of a body of the legal entity, when they are authorised to make decisions in name of the legal entity or have organisational and control faculties within it.
- the crimes have been committed in the exercise of social activities and for the account and direct or indirect benefit of the company itself, by those who, being subject to the authority of the individuals mentioned in the previous paragraph, have been able to carry out the acts due to a serious violation of the duties of supervision, surveillance and control of their activity, taking into account the specific circumstances of the case.

Notwithstanding the above, as of today no criminal sanctions have been imposed on legal entities in relation to infringements of competition law. Consequently, there is no evidence that the deterrent effect of criminal sanctions is vanishing because it has never really come to be applied in breaches of the competition rules.

In these cases, the procedure will continue before the criminal courts, and the competition authorities will not have the capacity to decide on the file, notwithstanding that they can be consulted as *amicus curiae*.

## 9.5 Damages

The fined companies will be liable for the damage caused to third parties, as established in Article 71 LDC. The parties affected by anticompetitive practices can request compensation for the damages suffered before the civil courts. Usually, if the liability is derived from a cartel practice, the claim will be considered non-contractual. Article 1.902 of the Civil Code states: ‘Who by action or omission causes damage to another, intervening fault or negligence, is obliged to repair the damage caused.’ Victims can also request the amendment or the declaration of nullity of any contractual clause that can be considered contrary to the LDC or TFEU.[46]

Punitive damages cannot be imposed by a civil court in addition to compensatory damages. Unlike what happens, for example, in the United States (treble damages), in Spain civil damages are compensatory. In fact, in order to be granted, there must be a causal link between the unlawful anticompetitive conduct and the damage actually caused, as well as proof of the damage actually caused and its amount. No compensation will be awarded if the damage is not proven.[47]

Director insurance policies normally do not cover liability of intentionally committed acts. In fact, many times they expressly exclude it. Therefore, it is not foreseeable that insurance policies will cover the liability derived from infractions of competition regulations, especially of hardcore cartels.

To date, no company is known to have sued its employees for an infringement of competition regulations. However, labour law in Articles 55 (disciplinary dismissal) and 58 (possibility of establishing faults and penalties) of Royal Legislative Decree 2/2015, of October 23, which approves the revised text of the Law on the Statute of the Workers, establishes disciplinary sanctions. Therefore, the safest option for the companies would be to implement a compliance programme that foresees—as a disciplinary sanction—the compensation of damages in the event of developing an anticompetitive behaviour.

Director insurance policies normally do not cover liability of intentionally committed acts. In fact, many times they expressly exclude it. Therefore, it is not foreseeable that insurance policies will cover the liability derived from infractions of competition regulations, especially of hardcore cartels.

[46]See hereto, C. Herrero Suarez, The implementation of the antitrust damages directive. Some thoughts in the wake of the publication of the proposal for an implementation law, in Cuadernos de Derecho Transnacional, 2016, pp. 150–183 and La nulidad de las conductas anticompetitivas In, A. Robles Martín Laborda, La lucha contra las restricciones de la competencia: sanciones y remedios en el ordenamiento español, 2017, pp. 223–268.

[47]About private enforcement in Spain see F. Marcos, Transposition of the Antitrust Damages Directive into Spanish Law, IE Law School Working Paper AJ8-241-I, 2018.

# 10 Sweden

Helene Andersson

## 10.1 Stock Taking

### 10.1.1 The Rules

Ever since Sweden decided to join forces with the other EU Member States and become part of the European Union, Swedish competition legislation has been closely modelled on its EU equivalent. The competition rules are currently contained in the Swedish Competition Act ('the Act'),[1] which entered into force on 1 November 2008. However, the substantive antitrust provisions have been the same since 1993 and mirror Articles 101 and 102 TFEU. While Chapter 2 Section 1 of the Act prohibits restrictive agreements, Chapter 2 Section 7 prohibits abuse of dominance.

The sanctions available for infringements are also found in the Act and resemble the toolbox available to the European Commission. A company found guilty of a competition law infringement will thus risk having to pay a fine, and agreements contrary to the Act will automatically be deemed null and void. Furthermore, although the legislator introduced an explicit right to damages for cartel victims already in 1993, the rules have recently been amended to accommodate the requirements of Directive 2014/104 ('the Damages Directive').[2] The rules on private

[1] *Sw. Konkurrenslagen* (SFS 2008:579).

[2] Directive 2014/104 of the European Parliament and of the Council on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union, OJ 2014 L 349, p. 1.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_10

enforcement, which were thus previously contained in the Act, have been removed, and a new legislative act has been adopted that transposes the Damages Directive into Swedish legislation and which to a great extent mirrors the provisions of the directive.[3]

#### 10.1.1.1 Nullity

As for the nullity sanction, Chapter 2 Section 6 of the Act stipulates that restrictive agreements that do not merit an exemption shall automatically be null and void. There is no equivalent provision governing agreements that are found contrary to Chapter 2 Section 7 of the Act and the prohibition against abuse of dominance enshrined therein, but case law suggests that also those agreements should be considered null and void and thus unenforceable.[4]

#### 10.1.1.2 Fines

Chapter 3 of the Act regulates actions against restrictions on competition and provides a number of sanctions. A company found to have violated the prohibitions against restrictive practices or abuse of dominance may be ordered to pay an 'administrative fine' of up to 10% of its annual turnover.[5] As will be discussed further in Sect. 10.1.5 below, the Swedish system deviates from its EU equivalent in the sense that the fine is calculated on the turnover of the company found to have infringed the Act and not on the turnover of the company group. This being said, much suggests that Swedish legislation will have to be amended once the ECN+ Directive enters into force.[6] The Swedish rules deviate from the EU system also with regard to the actual imposition of fines. While the Swedish Competition Authority ('the SCA') is empowered to establish an infringement and order an undertaking

[3] *Sw. Konkurrensskadelag* (SFS 2016:964).

[4] In the case of *Luftfartsverket vs. SAS*, the appeal court found that certain contractual clauses were contrary to both Article 102 TFEU and Chapter 2, Section 7 of the Act, and should therefore be deemed null and void. Göta Hovrätt, T-33-00 Staten genom Luftfartsverket/Scandinavian Airline System (2001-04-27). See also the Government Bill preceding the Act, which explicitly stipulates that also agreements constituting an abuse of dominance should be considered automatically null and void. Prop. 207/08:135, p. 75.

[5] *Sw. Konkurrensskadeavgift*. See Chapter 3, Section 5 of the Act.

[6] Proposal for a Directive of the European Parliament and of the Council to empower the competition authorities of the Member States to be more effective enforcers and to ensure the proper functioning of the internal market, Com (2017) 142 Final. The proposal requires Member States to ensure that (i) the maximum amount of the fine should not be set at a level below 10% of the undertaking's annual worldwide turnover (Article 14) and (ii) the notion of undertaking is applied for imposing fines on parent companies and legal and economic successors of undertakings (Article 13). Much indicates that the provisions are part of the finale text. During a speech held by Commissioner Vestager in Sofia on the 31st May 2018 (the day after the Parliament and the Council reached a provisional agreement on the adoption of the directive), she declared that '[t]hose fines won't just be linked to the size of the local subsidiary. Instead, the fine will be linked to the worldwide sales – of the whole business'. See http://www.mlex.com/GlobalAntitrust/DetailView.aspx?ppo=23&cid=992650&siteid=190&rdir=1.

engaging in such practice to terminate the infringement,[7] it has not been entrusted with the powers to impose fines on competition law offenders. Instead, the authority will have to turn to the courts and request them to impose such sanctions.[8]

As for the calculation of fines, the Act itself provides directives on how such calculation should be carried out. These provisions are found in Chapter 3 Sections 8 through 11 of the Act. The provisions are inspired by the Commission's guidelines and stipulate that the amount of the fine shall be set according to the 'sanction value' of the infringement and that account should be taken of the gravity and duration of the infringement. Furthermore, regard should be had to (i) aggravating and mitigating circumstances, (ii) whether the company is a repeat offender or has discontinued the infringement quickly after it has been pointed out by the SCA and (iii) the financial situation of the company in question.

While the Swedish system is a judicial system in the sense that the SCA does not have the powers to impose fines, there is nevertheless a possibility to avoid court proceedings under certain circumstances. With the adoption of the Act, the SCA was granted the powers to enter into settlement agreements with cartelists provided that certain conditions are met. Undertakings that wish to put the infringement behind them, and are willing to admit their guilt, are now given the opportunity to accept an administrative fine proposed by the SCA, a so-called fine order.[9] The term settlement may be misleading as it is the SCA that decides whether or not a fine order shall be offered and on what terms. The amount of the fine is not up for negotiation. Nor will the company accepting the fine order receive a reduction in the fine. The reason for this is that the legislator did not seek to set up a system where companies could or should be 'persuaded' to admit guilt.

Under the new rules, an undertaking that accepts a fine, within the time period and in the manner that the SCA decides, avoids a trial as the SCA may then not bring action against the undertaking. The acceptance of the fine order will have the same legal status as a binding judgment. However, a consent that is not given in writing within the time limit set by the SCA shall have no legal effect. Another requirement is that an order may only be issued if the SCA considers that the material circumstances regarding the infringement are clear. This means that a company may propose a fine order at an early stage of the investigation, but the order will not be issued until the investigation is over and the SCA has the statement of objections ready for distribution to the companies concerned.[10] According to the preparatory works to the Act, the legal certainty may be jeopardised if the infringement has not been properly investigated and the companies have been given the opportunity to take part of the case built against them and the evidence available to the SCA. Only then can a company make a reasoned decision as to whether it should

[7]Chapter 3, Section 1 of the Act.

[8]With the exception of the possibility to issue fine orders, see further below.

[9]*Sw. Avgiftsföreläggande*.

[10]Chapter 3, Section 18 of the Act and http://konkurrensverket.se/t/Page____4120.aspx.

go to court or accept a fine order.[11] Not only shall the material circumstances be clear; a fine order may not be issued where there are questions in law that may serve as precedent and where there is thus an interest to have the court decide on the matter. If the SCA, after having performed the investigation, considers that one or more companies should be granted the possibility of a fine order, it will, when sending out the statement of objections, offer such companies the possibility to accept a fine order instead of taking matters to court. In such case, the SCA will send out a pre-printed form to be signed and returned by the company within 3 weeks.

#### 10.1.1.3 Trading Prohibitions

While the fine is by far the most commonly applied sanction, it is not the only one available to the SCA. After years of debate on whether or not to criminalise cartels, the legislator settled for another type of individual sanction in 2008. When the Act was adopted, it introduced the possibility to impose trading prohibitions on company representatives. Chapter 3 Section 24 of the Act refers to the Trading Prohibitions Act and declares that the latter may apply where there has been an infringement of Chapter 2 Section 1 of the Act and/or Article 101 TFEU. Turning to Section 7 of the Trading Prohibitions Act,[12] it stipulates that a disqualification order shall be issued against anyone in a management position who has seriously disregarded his/her obligations arising from such position by engaging in price fixing, market sharing or market allocation activities contrary to Chapter 2 Section 1 of the Act and/or Article 101 TFEU. This provided that the imposition of a trading prohibition is required from a 'general interest'.[13] As will be discussed further in Sect. 10.1.7, the person in question need not have taken active part in the cartel. Also, failure to take appropriate measures against such activities may trigger a trading prohibition.

#### 10.1.1.4 Damages

As mentioned above, anyone who has suffered loss due to an infringement of the Act shall be entitled to damages. Any damages awarded should be compensatory and not punitive in nature. Chapter 3 Section 25 of the Act contains a reference to the newly adopted act on competition law damages, which incorporates the provisions of the Damages Directive into Swedish legislation.[14] Thus, just like Article 3 of the Damages Directive, Chapter 3 Section 1 of the Swedish act on competition law damages declares that those who have suffered harm caused by a competition law infringement shall be entitled to compensation in full—that is, compensation for actual loss, loss of profit and payment of interest. Neither the Damages Directive nor the Swedish act allows for punitive damages.[15]

[11] Regeringens proposition 2007/08:135, Ny konkurrenslag m.m., at p. 88.

[12] *Sw. Lag om näringsförbud* (SFS 2014:836).

[13] *Sw. Påkallat från allmän synpunkt.*

[14] Konkurrensskadelagen (SFS 2016:964).

[15] According to Article 3(3) of the Damages Directive, full compensation shall not lead to overcompensation, whether by means of punitive, multiple or other types of damages.

#### 10.1.1.5 Sanctions Imposed for Other Business-Related Breaches of Law

As for other business-related breaches of law, there are of course a multitude of laws and sanctions. In the following, a brief presentation will be made of the sanctions available for tax offences, accounting offences and insider trading.

##### 10.1.1.5.1 Tax Offences

According to the Swedish Act on Tax Offences,[16] anyone who intentionally provides false information to the authorities or fails to submit declarations, statements of income or other required information, thereby creating the risk that tax will be withheld from the community or will be wrongly credited or repaid to him or a third party, shall be sentenced to a maximum of 2 years' imprisonment for tax offences.[17] If the offence is to be regarded as serious, the sentence shall be a minimum of 6 months' imprisonment and a maximum of 6 years.[18]

The Swedish Tax Authority may also decide to impose a tax surcharge on anyone evading the obligation to pay taxes. Up until a few years ago, the imposition of a tax surcharge would not affect the possibility to later institute proceedings for tax offences (or *vice versa*). However, the preliminary ruling given by the Court of Justice of the European Union ('the ECJ' or 'the Court') in the case of *Åkerberg Fransson* has effectively put a stop to this practice.[19] In *Åkerberg Fransson*, the Court was asked to give its view on the possibility to sentence a Swedish fisherman to prison for tax evasion when the tax authorities had already ordered him to pay a tax surcharge.[20] In a preliminary ruling, the Court declared that the *ne bis in idem* principle laid down in Article 50 of the Charter of Fundamental Rights of the European Union ('the Charter') precludes Member States from imposing successively, for the same acts of non-compliance with declaration obligations in the field of value added tax, a tax penalty and a criminal penalty in so far as both penalties are to be considered criminal in nature, a matter that the ECJ left for the national court to determine.[21] Applying the *Engel* criteria established by the European Court of Human Rights,[22] the Swedish Supreme Court has later acknowledged that tax surcharges are to be considered criminal in nature.[23] Following legislative changes in 2015, the Swedish Act on Tax Offences does no longer allow proceedings to be instituted where the tax authority has imposed tax surcharges.

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[16] *Sw. Skattebrottslagen* (SFS 1971:69).

[17] Article 2 of the Swedish Act on Tax Offences.

[18] Article 4.

[19] CJEU, case C-617/10, *Åklagaren v Hans Åkerberg Fransson,* EU:C:2013:105.

[20] Mr Åkerberg Fransson was self-employed and thus under obligation to pay both VAT and employers' contributions.

[21] CJEU, case C-617/10, *Åklagaren v Hans Åkerberg Fransson,* EU:C:2013:105.

[22] In the case of *Engel v. the Netherlands*, the European Court of Human Rights declared that an offence is to be considered criminal in nature where it is classified as such under national law or the sanction pursues a retributive goal and is deterrent and punitive rather than compensatory. See *Engel and Others v the Netherlands*, judgment of 8 June 1976, Applications nos. 5100/71; 5101/71; 5102/71; 5354/72; 5370/72.

[23] NJA 2013 s. 502 (PMP).

#### 10.1.1.5.2 False Accounting

False accounting is also considered a criminal offence under Swedish law. Accounting legislation in Sweden consists of a number of mandatory accounting acts—the Annual Accounts Act and the Book-Keeping Act being the two most important. Both the Annual Accounts Act and the Book-Keeping Act are general frameworks for accounting, and both Acts refer to 'generally accepted accounting principles'. Anyone pursuing business in Sweden has an obligation to maintain accounting records for such activity in accordance with the provisions of the Book-Keeping Act and generally accepted accounting principles. Intentional or negligent failure to do so may lead to a fine or imprisonment of up to 2 years. This provided that the failure has rendered it impossible to properly assess the operations, result or economic position of the company in question. Serious offences may lead to a maximum of 6 years' and a minimum of 6 months' imprisonment.

#### 10.1.1.5.3 Insider Trading

In April 2014, the European Parliament and the Council adopted a regulation on market abuse ('the Market Abuse Regulation') and a directive on criminal sanctions for market abuse ('the Market Abuse Directive').[24] The Market Abuse Regulation is binding and directly applicable in all Member States, including Sweden. The Regulation lays down prohibitions against, e.g., insider dealing, unlawful disclosure of inside information and market manipulation. The Market Abuse Directive requires all Member States to introduce criminal sanctions for at least serious cases of market abuse, including inciting, aiding and abetting criminal offences and attempted insider dealing and market manipulation. As a consequence, Swedish legislation was amended in 2016. Today, there are two different routes available for this kind of offences. Whereas the more serious infringements may lead to imprisonment for up to 2 years, administrative fines may be imposed on those acts that are considered less deserving of punishment.

### 10.1.2 The Goals

Whereas Chapter 1 Section 1 of the Act sets out the goals of the Swedish competition rules,[25] there is no equivalent provision dealing with the sanctions. However, in the Swedish legal system, the preparatory works play a particularly important role, and these set out the goals of the sanctions available for competition law infringements. When the competition rules were amended in 2008, the fining guidelines provided in

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[24]Regulation 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ 2014 L 173, and Directive 2014/57 of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive); OJ 2014 L 173.

[25]According to said provision, the purpose of the Act is to eliminate and counteract obstacles to effective competition in the field of production of and trade in goods, services and other products.

the Act were adjusted with the explicit aim to secure the deterrent effect of the fines. It is also clear from the preparatory works that when setting the fine, this shall be done with the explicit aims to (i) ensure that the company receiving the fine will not resort to illegal behaviour in the future and (ii) deter others from engaging in activities contrary to the competition rules.[26] The fine shall thus ensure both individual and general prevention. As mentioned above, the Swedish competition rules have contained provisions on damages ever since 1993 and thus have a compensatory goal as well.

### 10.1.3 Determination/Calculation of Sanctions

Chapter 3 Sections 8 through 11 of the Act regulate the setting of fines. The rules are not identical to the Commission guidelines but have been inspired by them. Thus, Section 8 stipulates that the fine shall be set according to the 'sanction value' of the infringement and that regard shall be had to its gravity and duration. When assessing the gravity of the infringement, particular account must be taken to the (i) nature of the infringement, (ii) size and significance of the market and (iii) infringement's actual or potential impact on competition in the market. Section 9 deals with aggravating circumstances and stipulates that particular account shall be taken of whether the undertaking has had a leading role and/or persuaded others to participate in the infringement. The extent of the undertaking's participation shall also be considered when assessing any mitigating circumstances.[27] Finally, Article 11 declares that regard must also be had to whether the undertaking is a repeat offender or has discontinued the infringement quickly after it has been pointed out by the SCA, as well as to the financial status of the company in question.

The rules on the setting of fines do not take account of other sanctions by other bodies against the same persons for the same conduct. Nor are there any statutory provisions dealing with the relationship between fines and trading prohibitions. As for the question of compliance programmes, and whether the existence of a genuine compliance programme can mitigate the sanctions imposed upon companies, there are no clear rules governing this issue, and there is little case law on the matter. In *NCC AB et al v. the Swedish Competition Authority*, one of the parties argued that the existence of a compliance programme initiated after the SCA had started its investigation should be considered as a mitigating circumstance when setting the fine. The Swedish Market Court did not accept this argument.[28] While commending the company on having adopted a compliance programme, it questioned the effectiveness of such measures and chose not to pay regard to the programme when determining the amount of the fine.[29]

[26] Prop. 207/08:135, p. 112 and p. 120.

[27] Section 10.

[28] At the time the court of last instance. Since then, the court system has undergone a transformation.

[29] MD 2009:11, *NCC AB m. fl. ./. KKV et vice versa* (2009-05-28).

### 10.1.4 Enforcement

There are no criminal sanctions attached to infringements of the Swedish competition rules. Nor are there any competition-related prohibitions in other laws than the Act.[30]

As previously mentioned, the Act of 2008 introduced the possibility to impose trading prohibitions on company representatives. The preparatory works to the Act address the issue of the relationship between leniency programmes and trading prohibitions. It is acknowledged that without coordination, there is risk that companies refrain from applying for leniency. Company officials that risk a trading prohibition will have little or no incentive to apply for leniency on the part of the undertaking. It was therefore suggested that the rules should be framed in such a way that a trading prohibition should not be an option where the person in question has either himself/herself or within the frame of the business aided the competition authority in its investigation.[31] As a result, Section 9 of the Act on Trading Prohibitions stipulates that a trading prohibition shall not be required from a general interest where the person in question has facilitated the cartel investigation carried out by the SCA, the European Commission or a competition authority of another EU Member State.[32]

### 10.1.5 Parental Liability

As a general rule, the calculation of the fine is based solely on the turnover of the company found to have infringed the competition rules and thus not on the turnover of the company group. According to Chapter 3 Section 5 of the Act, the court may, at the request of the SCA, order an undertaking to pay a fine where the undertaking, or a person acting on behalf of the undertaking, intentionally or negligently has infringed the prohibitions in Chapter 2 Section 1 or 7 of the Act and/or Article 101 or 102 TFEU. There is no presumption that the parent is liable for the infringement of its subsidiary.

This being said, the Swedish courts have on at least one occasion held a parent liable for the actions of its subsidiary. In the case of *Telia AB v. the Competition Authority*, the SCA requested the courts to hold Telia AB—which at the time was the incumbent telecom operator in Sweden—liable for the actions of its subsidiary, Telia Handel AB, a company with a very low turnover. In its ruling, the Swedish Market Court acknowledged that under the competition rules, the principle of economic unity applies and that there was nothing in the wording of the Act or the preparatory works that prevented the court from holding a parent liable for the actions of its subsidiary. In the case at hand, the operations of the subsidiary were highly integrated with the operations of other companies within the Telia group. The

[30] Save for rules on public procurement and state aid.

[31] SOU 2006:99, p. 600.

[32] As stated earlier, a trading prohibition may only be issued if it is required from a general interest perspective.

abusive actions of Telia Handel that constituted the infringement had also had the objective of strengthening the position of the company group rather than the position of Telia Handel. The court found it clear that the parent, Telia, had exercised decisive control over Telia Handel and had issued instructions that Telia Handel was expected to follow.[33] Whether Telia Handel had followed the instructions given by its parent or whether Telia were actually aware of the illegal actions of its subsidiary was considered irrelevant. Telia was thus found liable for the actions of its subsidiary, and the fine could be calculated on the turnover of the parent.[34]

In the case of *Telia*, the defendant tried to rely on the compliance defence. However, this attempt was unsuccessful, and the existence of a compliance programme was instead taken to show that Telia had actively exercised a decisive influence over the operations of its subsidiary.

### 10.1.6 Associations of Undertakings

The prohibitions in the Act are closely modelled on Articles 101 and 102 TFEU. Thus, Chapter 2 Section 1 of the Act prohibits decisions by associations of undertakings that are restrictive of competition. Being a member of an association does not mean that you are automatically held responsible for the actions of the association. However, a member may be held liable if the association has the mandate to adopt decisions that are binding upon its members or if the company in question is adhering to the guidelines or recommendations issued by the association or is participating in meetings where 'sensitive information' is being exchanged or 'illegal decisions' are made.

In theory, both the association and its members may thus be found guilty of having infringed Chapter 2 Section 1 of the Act or Article 101 TFEU. In practice, it appears that the SCA often pursues the case against the association (having issued price lists or the like). There are exceptions, though. The case against the two tyre companies, Däckia AB (then owned by Goodyear) and Euromaster AB (owned by Michelin), is one example. In 2005, both the Swedish National Police Board and Gästrike Inköp—the latter acting on behalf of a number of Swedish municipalities—conducted procurements for tyres and tyre services. The Swedish Tyre Association submitted bids in both procurements. According to the bids, the services were to be offered by its members according to a certain geographical allocation. Some members were to carry out the services in some municipalities, whereas other members were to carry out the services in other municipalities. Finding that both Däckia and Euromaster had the capacity to submit individual bids and compete in the tender, the SCA decided to institute proceedings against the two companies.

[33]Interesting to note is that the 'instructions' referred to was actually a compliance programme implemented by Telia AB. Thus, it was partly the implementation of a compliance programme—meant to ensure compliance with the competition rules—that made it possible for the court to reach the conclusion that the turnover of Telia AB should be included in the calculation of the fine.

[34]MD 2001:30, Telia AB ./. KKV (2001-12-19).

While acknowledging that it could also institute proceedings against the Swedish Tyre Association, it chose not to do so declaring that this decision was motivated by reasons of procedural economy.[35]

While nothing suggests that the SCA bases its decisions on whom to pursue in an individual case on a calculation of the turnover of the members or the association, much suggests that any such practice will be unnecessary once the ECN+ Directive has been adopted and transposed into Swedish legislation. Article 13 of the directive proposal stipulates that Member States shall ensure that when a fine is imposed on an association of undertakings taking account of the turnover of its members and the association is not solvent, the association is obliged to call for contributions from its members to cover the amount of the fine. When a fine has been imposed on an association, the competent authorities should also be able to require the payment of any outstanding amount of the fine by any of the undertakings whose representatives were members of the decision-making bodies of the association.

### 10.1.7 Individual Sanctions on CEOs/Employees

As earlier discussed, the Swedish system does not provide for any criminal sanctions against cartel activities or other hardcore restraints of competition. However, since 2008, persons in a management position run the risk of receiving a trading prohibition if they actively take part in cartel activities, instruct someone else to take part in such activities or, despite being aware of the cartel, fail to take appropriate measures against the company's involvement in the cartel.[36]

Chapter 3 Section 24 of the Act refers to the Trading Prohibitions Act and declares that the latter govern certain infringements of Chapter 2 Section 1 of the Act and Article 101 TFEU. Turning to Section 7 of the Trading Prohibitions Act, it stipulates that a trading prohibition shall be issued against anyone who has seriously disregarded his or her obligations arising from the management of a company by engaging in price fixing, market sharing or market allocation activities contrary to Chapter 2 Section 1 of the Act and/or Article 101 TFEU. It is thus only the more serious violations of the prohibition against restrictive practices that may lead to a trading prohibition. A further requirement is that the imposition of a trading prohibition is required from a 'general interest'.[37]

Section 8 of the Trading Prohibitions Act provides guidance on how to determine when a trading prohibition is required from a general interest stipulating that regard should be had to whether the behaviour has been systematic, aimed at financial gain

[35]See the ruling from the Stockholm City Court in case T 18896-10, Konkurrensverket ./. Däckia AB och Euromaster AB.

[36]See the guidelines on trading prohibitions issued by the SCA, KKVFS2015:2, para 12. As for the notion of 'management position', the person in question should either formally be in charge of the company's operations or de facto hold such responsibility.

[37]*Sw. Påkallat från allmän synpunkt.*

or caused great damage. Regard should also be had to whether there has been an anti-competitive object or not.[38] The duration of a trading prohibition shall be no less than three and no longer than 10 years.[39]

As for the procedure governing trading prohibitions, it is the SCA that makes the request to the court. This could either be done in the proceeding that targets the undertaking or in a separate proceeding.[40] The rules have been in place for a decade, but no such request has yet been made by the SCA.

## 10.2 Are Present Sanctions Efficient/Sufficient?

The Swedish competition rules celebrate their 25th anniversary this year. Contrary to the EU system, where the Commission appears to set new fining records more or less on an annual basis, the level of the fines imposed on Swedish competition law offenders appears to have reached its peak already around the turn of the millennium. It was then that the SCA pursued two major cartel cases requesting the courts to impose fines of up to a billion SEK (approximately EUR 100 million). Although the fines eventually set by the courts were somewhat lower, they were still substantial. The cases received a lot of media attention, and the SCA was viewed by the public as a diligent and aggressive enforcer of the competition rules. Today, the fines imposed are much more modest, and the SCA has also experienced a very hard time in the courts. In several high-profile cases, the authority has been successful at first instance but has then lost the case in the second and last instance. See the chart below.

| Company/-ies | Type of infringement | Fine claimed | Fine imposed at first instance | Fine imposed at second instance |
|---|---|---|---|---|
| TeliaSonera | Abuse of dominance | MSEK 144 | MSEK 144 | MSEK 35 |
| Alfa Quality Moving et al | Cartel | MSEK 42 | – | – |
| Aleris Capio et al | Bid rigging | MSEK 41 | MSEK 28 | – |
| Swedish Match | Abuse of dominance | MSEK 38 | MSEK 38 | – |
| TeliaSonera et al | Bid rigging | MSEK 35 | MSEK18 | – |

As for any studies on the effectiveness of existing sanctions, certain aspects of the effectiveness of the current sanctioning system were discussed and examined in the preparatory works preceding the adoption of the Act. Those studies are thus more than a decade old and predate the introduction of the rules on trading prohibitions.

[38] Section 9 of the Trading Prohibitions Act.

[39] Section 10.

[40] See Section 17 of the Trading Prohibitions Act.

## 10.3 The Way Forward

As with legal rules generally, the competition rules also aim at creating incentives that shape the behaviour of all undertakings in the market, including those never found in violation. The most difficult part of quantifying the benefits of antitrust enforcement is that the primary benefits may come from the deterrence of anti-competitive conduct, which is then never observed.[41] The issue of how to create incentives or deterrence has been addressed by many writers. One of them is *Baker*, who points out that consistency and comprehensiveness in enforcement are very important and that 'enforcement must be frequent and highly visible'. Effective deterrence requires that those who might be tempted to take illegal action believe that there is some reasonable probability of them being caught and that if this happens, the consequences are likely to be grave.[42] Assistant Attorney General *Barnett* declares that deterrence only works when the consequences are real. To effectively deter cartels, antitrust enforcers must aggressively and predictably prosecute cartelists and use the full range of weapons in the enforcement arsenal.[43] As *Scordamaglia-Tousis* puts it, the goal of effective deterrence depends on two components: the level of the fines and the likelihood of being caught.[44]

If this is the case, then there is a clear risk that the Swedish system does not ensure effective deterrence at the time being. Although the SCA has been rather active during the last decade pursuing a number of cases before the courts, it has not been very successful during these court proceedings. In those cases where the courts have found an infringement, the fines imposed have been substantially lower than those initially claimed by the SCA. In a number of cases, the highest court has not even found an infringement, either because it has not agreed with the SCA on how to qualify the actions taken by the defendant undertakings[45] or because it has not considered the evidence presented by the SCA to be convincing. Raising the level of the fines—either through the introduction of higher thresholds or the inclusion of the entire company group in the calculation of the fine—is thus not necessarily a way forward.

[41] J. B. Baker, *The Case for Antitrust Enforcement*, Journal of Economic Perspectives, vol. 17, no. 4, 2003, at p. 40.

[42] D. Baker, *Punishment for Cartel Participation in the US: A Special Model?* In C. Beaton-Wells and A. Ezrachi (eds), *Criminalising Cartels – Critical Studies of an International Movement,* Hart Publishing, 2011, at p. 35.

[43] *Seven Steps to Better Cartel Enforcement*, Speech made by T. O. Barnett, Assistant Attorney General of the Antitrust Division of the US Department of Justice, at the 11th Annual Competition Law & Policy Workshop, European Union Institute in Florence Italy, 2 June 2006, http://www.justice.gov/atr/speech/seven-steps-better-cartel-enforcement#N_7_.

[44] A. Scordamaglia-Tousis, *EU Cartel Enforcement – Reconciling Effective Public Enforcement with Fundamental Rights*, Wolters Kluwer, 2013, p. 12.

[45] In the latest ruling rendered by the highest court (*Sw. Patent- och Marknadsöverdomstolen*) on 29 June 2018, the court did find the measures taken by the dominant firm Swedish Match to be restrictive of competition, but considered them to be objectively justified. See PMT 1988-17, *Swedish Match North Europe AB ./. Konkurrensverket*.

While the SCA may have been rather active in chasing companies suspected of cartel behaviour or abuse of dominance, it has not yet availed itself of the possibility to request the order of a trading prohibition. While a trading prohibition is a serious sanction that should of course be used with caution, it cannot be compared with imprisonment. If the SCA is hesitant to avail itself of the possibility to seek a trading prohibition, much suggests that a criminalisation of cartels would not necessarily lead to a more active or aggressive enforcement of the competition rules.

One possible way to achieve a more effective enforcement of the Act would be to change the institutional set-up. Most enforcement systems belong to either one of two different models: the administrative model or the judicial model. Under the administrative model, a single administrative authority investigates cases and takes enforcement decisions subject to judicial control. The judicial model is a model where, in essence, an administrative authority carries out the investigation and then brings the cases before a court.[46] As discussed throughout this chapter, the Swedish system is based on the judicial model. This could be compared to the EU system, which applies the administrative model, and where the European Commission is known to be a diligent and aggressive enforcer of the EU competition rules.

Remoulding the Swedish system into an administrative system would allow the SCA to adopt infringement decisions and to impose sanctions, thereby making it more authoritative and powerful in the eyes of the public. Although most companies would of course challenge these decisions before the courts, and although there is an apparent risk that the courts would then choose to lower the fines or even annul the infringement decisions, there are still advantages from an efficiency perspective. In January 2018, the Act was amended and the SCA was given the powers to block concentrations.[47] In the preparatory works, the government acknowledges the advantage of having a system where the authority may issue expedient and authoritative decisions.[48] Proponents of an administrative model could use these arguments to advocate the introduction of a truly and fully administrative system. However, while acknowledging that the administrative model may lead to a more effective—or aggressive—competition law enforcement, one must not disregard the due process aspects associated with such system. While the EU system is known to be effective, it is also often criticised from a fundamental rights' perspective. Those critical of the system argue that an order where the competition authority has been entrusted with

[46]See e.g. Commission Staff Working Document, Enhancing competition enforcement by the Member States' competition authorities: institutional and procedural issues. See also E. M. Fox and M. J. Trebilcock, *The Design of Competition Law Institutions and the Global Convergence of Process Norms: The GAL Competition Project* (2012), New York University Law and Economics Working Papers, Paper 304, at p. II A where Fox and Trebilcock make a further division of the judicial model into the bifurcated judicial model (where the competition authority goes to court for enforcement) and the bifurcated agency/tribunal model (where the agency goes to a specialised tribunal for enforcement).

[47]Up until then, the SCA needed to take matters to court and request the courts to block a transaction that it considered would lead to a significant impediment to effective competition, SIEC.

[48]See Government Bill *Prop. 2017/18:15, Ändringar i Konkurrenslagen*, at p. 25.

the powers to investigate, prosecute and adjudicate runs afoul of applicable fundamental rights legislation and more particularly the right to a fair trial.[49] When making institutional choices, the legislator must therefore ensure not only that the enforcement system is effective but also that it is governed by the rule of law, ensures transparency and affords adequate fundamental rights protection.

There is of course also the possibility that the investigatory tools provided to the SCA are not adequate and that the SCA does not detect the hardcore infringements or is unable to collect the evidence necessary to prove those infringements. When a competition authority receives information about an infringement and takes the decision whether or not to open an investigation, it will have to assess not only the evidence or indicia available at that point but also the possibilities (and costs) of gathering sufficient evidence to prove its case. In its Anti-Cartel Enforcement Manual, the International Competition Network discusses the different factors that impinge on the decision to initiate a cartel investigation, one being the availability or strength of evidence. While there may be a very strong suspicion that a cartel exists in a particular market, it is not worth committing resources to a matter that does not have strong evidence and therefore is not likely to be a successful case in subsequent litigation or appeal.[50] In short, it is not worthwhile adopting competition laws if the competition authorities are not provided with the investigatory measures necessary to detect any infringements. The Swedish system resembles its EU equivalent in the sense that the SCA may carry out dawn raids, request information and interview company staff. There is also a leniency programme in place. The SCA does therefore not appear to lack the investigatory tools necessary to conduct proper investigations.

To conclude, the current application of the Swedish competition rules cannot be considered effective. The SCA has lost all but one case in the last 5 years. Anyone prone to knowingly act in breach of the competition rules will therefore have greater incentives to do so as the risk of being sanctioned appears negligent. While larger corporations may still fear the European Commission, companies acting solely on the Swedish market will not feel the same restraints.

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[49] See e.g. M. Emberland, *Protection Against Unwarranted Searches and Seizures of Corporate Premises Under Article 8 of the European Convention on Human Rights: The Colas Est SA v France Approach*, Michigan Journal of International Law, vol. 25, issue 1, 2003.

[50] Anti-Cartel Enforcement Manual, Chapter 4, Cartel Case Initiation, Published in May 2007 by the International Competition Network, p. 18.

# Switzerland

# 11

Suzan Hacisalihzade

## 11.1 Stock Taking

The following chapter shall provide an overview of the sanction regime for breaches of competition law in Switzerland. For this purpose, the available *de lege lata* sanctions will be outlined, the goals of competition law sanctions will be shown, the determination and calculation of competition law sanctions will be explained, the means of enforcement will be portrayed, the attribution of liability to a parent company or an association will be discussed, the parliamentary discussions about introducing direct sanctions against individuals will be outlined and the requirements for indirect financial liability of an employee or a director will be shown.

### 11.1.1 The Rules Concerning Competition Law Sanctions

The Swiss Federal Act on Cartels and other Restraints of Competition (CartA or Cartel Act)[1] provides for *administrative sanctions* against undertakings for unlawful restraints of competition (Article 49a CartA), breaches of settlements and administrative decisions (Article 50 CartA), breaches in the context of concentrations of undertakings (Article 51 CartA) and breaches to fulfil the obligation to provide information or to produce documents (Article 52 CartA). There is a Federal Ordinance on Sanctions Imposed for Unlawful Restraints of Competition (Cartel Act

[1] An unofficial translation of the CartA is available under the following link: https://www.admin.ch/opc/en/classified-compilation/19950278/index.html. Accessed 28 October 2018.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_11

Sanctions Ordinance, CASO),[2] which provides for the assessment criteria for the imposition of sanctions as well as the conditions and the procedure for obtaining complete or partial immunity from sanctions.

These *direct administrative sanctions* entail monetary sanctions for breaches of competition law and related procedural rules. The fines against undertakings for unlawful restraints of competition and for breaches of settlements and administrative decisions may result in a maximum fine of 10% of the turnover which the undertaking achieved in Switzerland in the preceding three financial years.[3] Breaches in the context of concentrations may be fined up to CHF one million. In cases of repeated failures to comply with a condition attached to the authorisation of a merger, the undertaking may be fined up to 10% of the turnover achieved by all undertakings concerned. For breaches to fulfil the obligation to provide information or to produce documents, an undertaking may be fined up to CHF 100,000. In addition, bid rigging may under certain circumstances, depending on the applicable legislation, lead to the exclusion of parties to participate in public tenders.

In addition to the sanctions mentioned above, Swiss competition law contains a penalty model referred to as *indirect sanctioning* comprising administrative sanctions against individuals. Accordingly, individuals acting for an undertaking that violates a settlement, a final and non-appealable ruling of the competition authorities or a decision of an appellate body in competition matters may be fined up to CHF 100,000 (Article 54 CartA). In addition, any individual who intentionally does not comply with a ruling of the competition authorities concerning the obligation to provide information, who implements a concentration that should have been notified without filing a notification or who violates rulings relating to concentrations of undertakings is liable to a fine of up to CHF 20,000 (Article 55 CartA). Under Swiss law, there are no custodial sentences for breaches of competition law.

There are no similar prohibitions imposed by *Swiss criminal law*. However, it is a matter of dispute in Switzerland whether bid rigging, which is considered as a hardcore horizontal agreement under the CartA, may also be considered as fraud under Article 146 of the Swiss Criminal Code (SCC).[4] In addition, competition law infringements may also trigger the violation of other criminal law provisions, such as document forgery.

At the time when *direct administrative sanctions* against undertakings for breaches of competition law were introduced in Switzerland, the Federal Council noted that the imposition of administrative sanctions against undertakings due to breaches of competition law does not require fault since administrative sanctions as

[2] An unofficial translation of the CASO is available under the following link: https://www.admin.ch/opc/en/classified-compilation/20040326/index.html. Accessed 28 October 2018.

[3] For further details regarding the calculation of a fine cf. Sect. 11.1.3 below.

[4] An unofficial translation of the SCC is available under the following link: https://www.admin.ch/opc/en/classified-compilation/19370083/index.html. Accessed 28 October 2018.

such do not require fault.[5] However, the Swiss Competition Commission (COMCO)[6] and the Federal Supreme Court[7] have revised this assertion and consider fault (or *the possibility to reproach someone*) as a prerequisite for administrative sanctions against undertakings. Fault is at hand in cases where there is an objective lack of due diligence or organisational deficiency of the undertaking.

Swiss *criminal law* also provides for the possibility to sanction undertakings in Article 102 SCC when a crime or criminal offence is committed in an undertaking in the exercise of commercial activities within the scope of the undertaking and when such crime or criminal offence is not attributable to an individual due to the inadequate organisation of the undertaking. Consequently, in criminal law, corporations have in principle only a subsidiary criminal liability and may only be punished if no particular individual can be identified as the perpetrator. However, this principle is partially overruled in Article 102 para. 2 SCC, according to which the criminal liability also applies concurrently to corporations for certain matters, such as money laundering, bribery, supporting criminal organisations and terrorist financing, provided the undertaking has failed to take all reasonable organisational measures that are required in order to prevent such an offence. Under these circumstances, corporations may be liable to a fine not exceeding CHF five million. The fine is assessed based on the seriousness of the offence, the seriousness of the organisational inadequacies, the loss or damage caused and based on the economic ability of the undertaking to pay the fine. It must be noted, that since breaches of competition law are not considered a crime or criminal offence under Swiss law, Article 102 SCC may not be used to attribute an infringement of competition law to a corporation.

Regarding *civil claims*, an impeded undertaking may sue for removal or cessation of the hindrance of competition, for damages and reparations as well as for surrender of unlawfully earned profits, according to Article 12 CartA. Civil courts only grant damages to the extent of the incurred loss of the claimant. Furthermore, as unlawful contracts are void in whole or in part, according to Article 20 of the Code of Obligations (CO),[8] an impeded undertaking may bring before the courts an action for the declaration of the nullity of an illegal agreement. However, there are no punitive damages under Swiss law.

*In general*, there are a variety of sanctions in Switzerland for business-related breaches of criminal, administrative and civil law, such as monetary penalties, custodial sentences, exclusions of public tenders, prohibitions from practising a profession, revocations of regulatory approvals, confiscations of profits, publications

[5]Message of the Federal Council on the Amendment of the Cartel Act of 7 November 2001, Official Gazette 2002 2022 et seq, 2034.

[6]For example Law and Policy of Competition, LPC (*Recht und Politik des Wettbewerbs (RPW)*) 2017/1 p. 96 et seq. – *Eflare*, para. 60 et seq.

[7]Decision of the Swiss Federal Supreme Court of 29 June 2012 (BGE 139 I 72, respectively BGer 2C_484/2010, para. 12.2.1).

[8]An unofficial translation of the CO is available under the following link: https://www.admin.ch/opc/en/classified-compilation/19110009/index.html. Accessed 28 October 2018.

of rulings, imposition of an obligation to do, tolerance or refraining from doing something, etc. However, currently only the sanctions mentioned above are in force in Switzerland for infringements of competition law.

### 11.1.2 The Goals of Competition Law Sanctions

According to Article 1 CartA, the *purpose of the act* is to prevent harmful economic or social effects of cartels and other restraints of competition and, by doing so, to promote competition and the interests of a liberal market economy. The specific goals of imposing competition law *sanctions* are defined not by the CartA itself but rather in the legislative preparatory work to the CartA. In particular, the Federal Council's message to the Swiss Federal Parliament regarding the amendment of the CartA clearly identifies deterrence and retaliation as one of the main goals of direct administrative law sanctions.[9] According to the COMCO commentary on the CASO, the magnitude of competition law sanctions is intended to make breaches of competition law unappealing for undertakings when they compare the benefits with the risks of anti-competitive behaviour.[10] COMCO, therefore, actively pursues the deterrent goal of competition law sanctions.

In this context, it must be noted that compensation is not one of the main goals of Swiss competition law since compensation may only be sought by way of private enforcement and since private enforcement of competition law breaches is associated with various procedural obstacles under Swiss law.[11]

### 11.1.3 Determination and Calculation of Competition Law Sanctions

The CartA states that the fines against undertakings for unlawful restraints of competition (due to hardcore horizontal and vertical restraints and abuse of a dominant position) may result in a maximum fine of 10% of the turnover which the undertaking achieved in Switzerland in the preceding three financial years. The CASO defines the detailed method on how to calculate the amount of the fine within the maximum threshold laid down by the CartA. Furthermore, COMCO issued a commentary on the CASO, which sets out guidelines on how COMCO determines the amount of a sanction. This commentary on the CASO is not legally binding but serves as a guideline.

The amount of the sanctions is based on the duration and severity of the competition law infringement and takes into account the presumed profit that the

[9]Message of the Federal Council on the Amendment of the Cartel Act of 7 November 2001, Official Gazette 2002 2022 et seq, 2033 and 2052.

[10]The CA's Commentary on the CASO, dated 1 January 2006, p. 4.

[11]Regarding procedural obstacles in connection with claims for damages in respect to competition law breaches cf. Sect. 11.1.4 below.

undertaking has made as a result of the infringement. In order to determine the amount of the fine, the sanction range of 0–10% guarantees a deterrent effect in serious cases and also allows the authorities to impose sanctions of a merely symbolic nature in minor cases. Thus, by law, COMCO has a certain discretion regarding sanctions at its disposal, which it must exploit prudently. In doing so, COMCO must observe the principles of proportionality and equal treatment.[12]

According to the CASO, first a base amount is set, which amounts to a maximum of 10% of the turnover achieved by the undertaking concerned in the relevant markets in Switzerland during the preceding three financial years. This base amount is then adjusted in a second step based on the duration of the violation before aggravating and mitigating circumstances can be taken into account in a third step. Despite the procedure laid down in the CASO, the penalty assessment is not purely a calculation process but a legal and economic overall assessment of all relevant circumstances, whereby the principle of proportionality must be taken into account. However, the rules on determining the sanction for an infringement of competition law do not take into account other sanctions imposed by other bodies against the same person for the same conduct.

The Swiss Cartel Act does not provide for direct sanctions for employees for breaches of competition law. Therefore, no sanction can be imposed directly on an employee of an undertaking for infringing competition law. However, as described above in Sect. 11.1.1, employees acting for an undertaking who violate a settlement, a final and non-appealable ruling of the competition authorities or a decision of an appellate body in competition matters may be fined. In addition, any employee who intentionally does not comply with a ruling of the competition authorities concerning the obligation to provide information, who implements a concentration that should have been notified without filing a notification or who violates rulings relating to concentrations of undertakings is liable to a fine (Article 55 CartA). These possible sanctions on employees, however, do not affect the sanction that an undertaking faces for breaches of competition law.

As of today, there is no statutory provision according to which the existence of a compliance programme would mitigate the fine imposed upon companies for competition law infringements. Motions in the Swiss Federal Parliament to introduce such a provision into the CartA have recently failed[13] or were recently withdrawn.[14] A way to mitigate the fine imposed upon companies for competition law violations of employees is the full cooperation with COMCO during the investigation and the disclosure of the relevant facts to COMCO.

Even though COMCO could take the existence of a compliance programme into consideration as a mitigating factor when determining the exact fines within the

[12] LPC 2012/4, p. 820 et seq. – *Vertrieb von Musik*, para. 189.

[13] Parliamentary Motion of R. Schweizer, no. 07.3856 of 20 December 2007; Parliamentary Initiative of H. Kaufmann, no. 08.443 of 13 June 2008.

[14] Parliamentary Initiative of D. De Buman, no. 16.473 of 30 September 2016; (the parliamentary initiative was withdrawn as of 27 October 2017).

framework of the CASO,[15] COMCO has been reluctant to ease the fine imposed on undertakings based on the existence of a compliance programme.

### 11.1.4 Enforcement of Competition Law and of Competition

In Switzerland, COMCO is mainly responsible for the enforcement of competition law. It is empowered to open investigations, to issue decisions and to impose fines for infringements of competition law. The procedure before COMCO is designed as an administrative procedure. However, as the direct sanctions of Article 49a CartA are criminal sanctions in nature, the same guarantees of fundamental rights must be applied as in criminal proceedings (such as the guarantees of the European Convention on Human Rights).

Even though every individual or legal person may file a complaint with COMCO regarding competition law infringements, according to Article 12 CartA, only persons hindered by an unlawful restraint of competition from entering or competing in a market are entitled to seek remedies in front of civil courts. Therefore, it is assumed that consumers have no standing in civil courts in Switzerland, although the question has not been raised before the courts. Furthermore, private enforcement of competition law breaches is associated with various procedural difficulties. Firstly, the burden of proof lies with the claimant, and the claimant in a civil procedure faces evidentiary difficulties since, contrary to COMCO, the claimant cannot enforce the taking of evidence. Secondly, in a civil procedure, the claimant must pay costly advances (which are calculated based on the value of the dispute and may therefore be a substantial burden). And lastly, claimants may often pass on an overcharge, which arises from a cartel, to its customers and may therefore not even incur damages, which would entitle them for a civil claim for damages. Due to these circumstances, there are much more administrative proceedings than civil proceedings in competition law matters.

Besides the aforementioned, there is a Federal Act against Unfair Competition (UCA), which contains competition-related prohibitions. While the CartA primarily aims at the functionality of the market and the continued existence of competition, the purpose of the UCA is to protect the fairness and integrity of competition. The UCA provides for civil law provisions on the unlawfulness of any conduct that is deceptive or contrary to the principle of good faith and that influences the relationship among competitors or suppliers and customers. Anyone who is threatened or injured by unfair competition in his clientele, credit or professional reputation, in his business operations or otherwise in his economic interests may go to a civil court and demand for the prohibition of an imminent violation, the elimination of an existing infringement or the determination of the unlawfulness of an infringement if it

[15] Decision of the Federal Administrative Court of 16 September 2016 (B-581/2012), para. 8.2.3; Statement of the Federal Council in respect to the Parliamentary Motion R. Schweiger (07.3856), A more balanced and effective system of sanctions for Swiss competition law, 20 December 2007.

continues to have a disruptive effect. In contrast to the CartA, the UCA undisputedly grants consumers the opportunity to assert their claims in court. Furthermore, the UCA also provides for criminal provisions for intentional unfair advertising and sales methods, incitement to breach or terminate contracts, bribing and being bribed, exploiting external services, infringement of manufacturing and trade secrets. Customers, professionals and business associations, as well as organisations that are dedicated to consumer protection, are entitled to file a criminal complaint. A special feature of the UCA is the right of the Federal Government to file a criminal complaint that it considers necessary in order to protect public interests.[16] It must be noted that these criminal violations of the UCA may only be prosecuted upon request. These criminal violations may be sanctioned with imprisonment for up to 3 years or a fine.

### 11.1.5 Attribution of Liability to a Parent Company

According to the Federal Supreme Court, a parent company may, under certain circumstances, be held liable and may be fined for the competition law infringements of its subsidiaries.[17] In order to impute liability for competition law breaches to a parent company, two conditions must be met: first, the parent company must be able to influence its subsidiaries, and second, the parent company must actually exercise its influence.[18] However, according to case law, it may also be permissible in individual cases to sanction only the acting subsidiary if there are objective reasons for doing so.[19] Furthermore, it is also possible for COMCO to hold both the parent company and the subsidiary liable for breaches of competition law and to hold them jointly liable.[20] However, the Federal Administrative Court has ruled that a parent company may only be held liable for the competition law infringements of its subsidiary if the infringement took place after the acquisition of the said subsidiary.[21]

The possibility to influence a subsidiary is presumed if the subsidiary is entirely (100%) controlled by the parent company. However, such presumption may be refuted.[22] According to COMCO, shareholdings between 50% and 100% can also provide the parent company with the possibility to influence its subsidiary, for

[16] D. Jositsch and M. Conte, *Strafbestimmungen im Bundesgesetz gegen unlauteren Wettbewerb*, sic 2017, pp. 437–446, p. 440.

[17] Decision of the Swiss Federal Supreme Court of 29 June 2012 (BGE 139 I 72, respectively BGer 2C_484/2010, whose para. 3 include the relevant considerations on this subject).

[18] Decision of the Swiss Federal Administrative Court of 27 April 2010 (B-2977/2007), para.4.1; LPC 2013/4, 524 et seq. – *Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Zürich*, para. 85; LPC 2015/2, p. 246 et seq. – *Türprodukte*, para. 267 and 270.

[19] LPC 2015/2,p. 246 et seq. – *Türprodukte*, para. 270.

[20] LPC 2010/1 p. 120 et seq. – *Preispolitik Swisscom ADSL,* para. 27.

[21] Decision of the Swiss Federal Administrative Court of 25 June 2018 (807/2012), para. 11.4.4.

[22] LPC 2013/4 p. 524 et seq. – *Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Zürich*, para. 87.

example, if the same individual is placed into management positions within the parent and the subsidiary.[23] According to COMCO, even shareholdings below 50% may give the parent company the possibility of influencing its subsidiary. However, in cases where the parent company's shareholding is below 50%, influence of the parent company over its subsidiary is not presumed and would need to be factually proven.[24] If a parent company holds an interest in a subsidiary for the sole purpose of a financial investment, which is limited to the exercise of shareholder rights, which may be sold at any time and with which no influence is exerted in the course of business of the subsidiary, it is not assumed that a parent company exercises any influence on its subsidiary.[25]

As mentioned above, the parent company cannot rely upon a compliance defense, i.e. that it took all reasonable efforts to prevent the violation to reduce or avoid the fine.

It must be noted that when determining the relevant competition law addressee, Swiss competition law focuses on an independent functional approach, which is not linked to any formal aspects or to any legal or organisational forms provided by company law. It is the entity that participates independently in the economic process that is the addressee of the CartA. However, if such entities do not have a legal personality, they are ruled out as legitimate addresses of a ruling containing a sanction. Consequently, competition law sanctions that are to be imposed on an unincorporated group of several companies are assigned to the relevant legally incorporated persons.[26]

### 11.1.6 Attribution of Liability to an Association of Undertakings

The CartA only applies to undertakings. An undertaking is defined in the CartA as an entity that demands or supplies goods or services and that is active in commerce regardless of its legal or organisational form. When an association acts neither as a buyer nor as a supplier of goods or services but merely represents the interests of its members, it cannot be qualified as an undertaking within the meaning of the CartA. Instead, the members of the association may be considered as undertakings within the meaning of CartA.[27] As a consequence, members of the association that qualify as undertakings may be held liable for breaches of competition law.[28] If an

[23]LPC 2012/2 p. 270 et seq. – *Verfügung vom 16. Dezember 2011 in Sachen Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Aargau*, para. 895 et seq; LPC 2015/2 p. 246 et seq. – *Türprodukte*, para. 269.

[24]LPC 2013/4 p. 524 et seq. – *Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Zürich*, para. 87; LPC 2015/2 p. 246 et seq. – *Türprodukte*, para. 268.

[25]W 2015/2 p. 246 et seq. – *Türprodukte*, para. 269; LPC 2012/2 p. 270 et seq. – *Verfügung vom 16. Dezember 2011 in Sachen Wettbewerbsabreden im Strassen- und Tiefbau im Kanton Aargau*, para. 896.

[26]Decision of the Swiss Federal Administrative Court of 25 June 2018 (807/2012), para. 11.4.1.

[27]Decision of the Swiss Federal Administrative Court of 27 April 2010 (B-2977/2007) para. C. 4.3.

[28]Decision of the Swiss Federal Administrative Court of 27 April 2010 (B-2977/2007) para. C. 4.3 and 4.5.

association can be qualified as an undertaking because it acts as a buyer or supplier of goods or services active in commerce itself and does not only represent the interests of its members, it may be the subject of competition law decisions and may be fined for breaches of competition law.[29] In other cases, where no sanctions were imposed on the associations, COMCO imposed behavioural obligations on the associations, such as the obligation not to exchange sensitive market information.[30]

If anti-competitive agreements take place within the members of an association, the association itself cannot be sanctioned since at least two undertakings are required for an agreement affecting competition to take place according to Article 5 CartA and since the association itself does not participate in the agreement but merely offers the platform for agreements to take place in. It is, however, possible that COMCO imposes an association to bear part of the procedural costs of an investigation by COMCO if the undertaking served as a platform for agreements to take place in.[31]

### 11.1.7 Sanctions Against Individuals

Indirect sanctions, which according to the CartA can be imposed on individual persons who do not comply with the decrees of COMCO, have had no relevance in practice until now.[32] These provisions in the CartA against individual persons stayed unaltered during the last revision of the CartA in 2003, even though there were intensive discussions in the Swiss Federal Parliament on a possible extension of sanctions against individuals.[33]

During the discussion, advocates of the introduction of direct sanctions against individuals argued that direct sanctions take into account the fact that anti-competitive agreements were made not by the companies themselves but by the persons acting on their behalf. Furthermore, they argued that direct sanctions against individual persons would be more effective as those responsible for the infringement would be personally liable. In addition, it was argued that those in charge would apply an increased level of duty, whereas sole direct sanctions against undertakings would only harm investors, while those responsible could still escape from being held liable. Those opposing the introduction of direct sanctions against individuals argued that the introduction of direct sanctions against undertakings was a sufficient

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[29]LPC 2012/4, 820 et seq. – *Vertrieb von Musik*, para. 45 et seq., 174 et seq.; M. Amstutz and M. Reinert, Basel Commentary on the CartA, Helbing Lichtenhahn Verlag 2010, para. 99 to art. 49a KG.

[30]LPC 2011/4, p. 529 et seq. – *ASCOPA*; LPC 2013/2, p. 142 et seq. – *Verfügung vom 10. Dezember 2012 in Sachen Abrede im Speditionsbereich.*

[31]LPC 2018/1, p. 78 et seq. – *Verzinkung*, p. 120.

[32]Official Bulletin of the Swiss Federal Parliament, AB 2002 Para. 1458 et seq.

[33]For a comprehensive overview of the revision of the CartA in 2003 please refer to F. Bremer, *Strafsanktionen gegen natürliche Personen im schweizerischen Kartellrecht*, Stämpfli Verlag 2015, p. 220 et seq.

intensification of sanctions against breaches of competition law. The purpose of introducing direct sanctions against undertakings was considered to encourage undertakings to take internal precautionary measures to combat anti-competitive conduct, and additional measures were not necessary. In addition, it was claimed that there would be serious issues of practicability in terms of attributing an anti-competitive behaviour to an individual.[34] As a result of these arguments, the introduction of direct sanctions against individuals was dismissed.

A couple of years after the revision of the CartA in 2003, there have been various unsuccessful efforts in the Swiss Federal Parliament to introduce direct sanctions against individuals for breaches of competition law. There has been a motion in Parliament for 'A more balanced and effective system of sanctions for Swiss competition law', which demanded a provision in the CartA that would ensure that undertakings that operate antitrust compliance programmes should be subject to no sanction or a reduced sanction. Consequently, in order to strengthen companies' compliance efforts, the motion demanded that the CartA should also include penalties for individuals who actively participate in cartel agreements.[35] There were further initiatives in Parliament, which requested that anyone who, in violation of statutory or contractual fiduciary duties towards the undertaking, intentionally and through active acts, participates in an anti-competitive agreement pursuant to the CartA should be sanctioned with a custodial sentence of up to 3 years or with a fine.[36] There was a further motion in Parliament requesting that the CartA must be tightened and become more deterrent by introducing direct sanctions against individual persons.[37]

The reasons why direct sanctions against individuals have not been introduced in Switzerland are manifold. For example, criminal liability of individuals would require proof of intent. However, in practice, it will be difficult to prove such intent.[38] Furthermore, it was also considered a significant risk that the responsibility for competition law infringements could be passed to lower-level employees for the benefit of the undertaking itself.[39] However, one of the main reasons seems to be that by introducing direct criminal sanctions against individuals, the effectiveness of the rather newly introduced sanctions against undertakings and of the leniency programme would be at risk. Therefore, there are voices that claim that the introduction of direct criminal sanctions against individuals in Switzerland is only a matter of time.[40]

[34] An overview of the parliamentary debates can be found in the Official Bulletin of the Swiss Federal Parliament AB 2002 para. 1458 et seq.

[35] Parliamentary Motion R. Schweiger (07.3856), A more balanced and effective system of sanctions for Swiss competition law, 20 December 2007.

[36] Parliamentary Initiative by H. Kaufmann (08.443), Preventing existential threats which result from competition law fines, 13 June 2008.

[37] Parliamentary Motion by D. De Buman (10.3302), For real competition and lower prices, 19 March 2010.

[38] Statement of the Federal Council in respect to the Parliamentary Motion R. Schweiger (07.3856), A more balanced and effective system of sanctions for Swiss competition law, 20 December 2007.

[39] Protocol of the Commission for Economic Affairs and Taxation of 5/6 October 2009.

[40] B. Althaus, *Die Sanktionen des Kartellgesetzes im Wandel der Zeit*. In: Canapa/Landolt/Müller (ed), *Sein und Schein von Gesetzgebung*, Dike Verlag 2018, pp. 221–241.

### 11.1.8 Indirect Financial Liability of an Employee or a Director

There are many requirements that need to be fulfilled in order to sue employees or directors for damages that result from infringements of competition law.[41] Directors may only be sued if they have been entrusted with the management of the undertaking (i.e. if they are a formal, material or factual organ of the undertaking in question). First, a damage in the legal sense is required that consists of the difference between the asset amount as it actually exists after the damaging event and the value that would have been hypothetically reached without the damaging event. A damage that occurs in the context of competition law infringements may therefore be considered to be the legally binding sanction that COMCO imposes due to a breach of competition law. Second, a breach of duty is required, i.e. a violation of the duties imposed by law or the articles of association. In this context, a breach of competition law could be considered as a breach of duty. However, it would have to be the person entrusted with the management of the undertaking, i.e. an organ of the undertaking, not just any employee of the undertaking, who infringes competition law. Third, there would need to be natural causal link and an adequate causal link between the unlawful behaviour and the damage, which means that the behaviour of the organ would need to have caused the sanction imposed by COMCO. Fourth, culpability is required; however, both negligent and intentional acts are sufficient to establish liability. Even slight negligence is sufficient to justify liability.

As of today, there are no known court cases where corporations sued their directors for damages that occurred due to breaches of competition law. This is mainly due to the high prerequisites for a successful court case and also due to the burden of proof that a corporation would have to bear in such a case.

## 11.2 Recent Sanctions Imposed by COMCO

Between 2013 and 2017, the five highest fines imposed by COMCO or confirmed by the appellate bodies in a single procedure amounted to (in descending order): CHF 186,036,840[42]; CHF 156,868,150[43]; CHF 80,000,000[44]; CHF 71,818,517[45]; and CHF 45,300,000.[46] The amounts of the corresponding highest fines imposed on individual undertakings were the following (in descending order): CHF

[41] According to art. 754 CO.

[42] RPW 2015/3, 561 et seqq. - *Sanktionsverfügung - Preispolitik Swisscom ADSL.*

[43] RPW 2017/4, 689 et seqq. - *BMW/WEKO.*

[44] Sanitary wholesale; see press release by COMCO of 3 July 2015 https://www.admin.ch/gov/de/start/dokumentation/medienmitteilungen.msg-id-58001.html. Accessed 31 October 2018.

[45] RPW 2016/4, 920 et seqq. - *Sport im Pay-TV.*

[46] *EURIBOR cartel*; see press release by COMCO of 21 December 2016 https://www.weko.admin.ch/weko/de/home/aktuell/medieninformationen/nsb-news.msg-id-65052.html. Accessed 31 October 2018.

186,036,840[47]; CHF 156,868,150[48]; CHF 71,818,517[49]; CHF 33,873,000[50]; and CHF 29,772,000.[51]

Every year, COMCO publishes an annual report with statistics, which provides an overview of COMCO's activities. Although these do not allow a precise measurement of the effectiveness of sanctions, the number of annual sanction decisions can be derived from the statistics. According to the annual reports, the amount of decisions that imposed sanctions has increased in the last 9 years.[52]

It shall be noted that Article 5 para. 1 lit. a of the CASO provides for stricter sanctions in cases where an undertaking repeatedly infringes the CartA. Furthermore, compliance with binding decisions is pursued by the administrative sanctions against individuals of Articles 50 and 54 CartA.

## 11.3 The Way Forward, Need for Change?

As mentioned above, the CartA provides for sanctions against undertakings and individuals who have breached decrees issued by COMCO. Until now, sanctions against individuals have had no relevance in practice. However, it is believed that sanctions against individuals, whether in the form of administrative or criminal sanctions, have a considerably higher deterrent effect than sanctions against undertakings.[53] According to a study, which assessed the CartA, the introduction of criminal sanctions against individuals was not necessary in Switzerland, but instead the introduction of administrative sanctions against individuals could be considered. However, the study suggests that in order for direct administrative sanctions against individuals to be introduced, COMCO should first develop a consistent administrative sanction practice against undertakings on the basis of the existing law and thus create predictability and legal certainty for undertakings and individuals.[54] As of today, such a degree of legal certainty, which would justify the

[47]RPW 2015/3, 561 et seqq. - *Sanktionsverfügung - Preispolitik Swisscom ADSL.*

[48]RPW 2017/4, 689 et seqq. - *BMW/WEKO.*

[49]RPW 2016/4, 920 et seqq. - *Sport im Pay-TV.*

[50]*LIBOR cartel*; see press release of 21 December 2016 https://www.weko.admin.ch/weko/de/home/aktuell/medieninformationen/nsb-news.msg-id-65050.html. Accessed 31 October 2018.

[51]*EURIBOR cartel*; see press release of 21 December 2016 https://www.weko.admin.ch/weko/de/home/aktuell/medieninformationen/nsb-news.msg-id-65052.html. Accessed 31 October 2018.

[52]COMCO's Annual Reports may be accessed under the following link: https://www.weko.admin.ch/weko/en/home/comco/annual-reports.html. Accessed 31 October 2018.

[53]Evaluation on the CartA (2009), p. XIX, https://www.weko.admin.ch/weko/de/home/dokumentation/evaluation-und-revision-des-kg/evaluation-des-kartellgesetzes.html. Accessed 31 October 2018.

[54]Evaluation on the CartA (2009), p. XX, https://www.weko.admin.ch/weko/de/home/dokumentation/evaluation-und-revision-des-kg/evaluation-des-kartellgesetzes.html. Accessed 31 October 2018.

attribution of administrative or even criminal liability to individuals, has not yet been established.

Furthermore, the study on the evaluation of the CartA also stated that even if administrative sanctions against individuals were to be introduced in Swiss competition law, individual sanctions would have to be applied cumulatively to the sanctions for undertakings and not replace sanctions for undertakings. If such sanctions against individuals were to be introduced, the legal framework should be built in such a way that companies should be prevented from evading responsibility at the expense of employees. Furthermore, such sanctions should be limited to particularly harmful, hardcore horizontal agreements. Finally, according to the study, individual administrative sanctions would have to be combined with the possibility of a bonus programme for individual persons in order not to damage the existing leniency programme for undertakings.[55]

It would be false to disqualify the current administrative sanction regime against undertakings in Switzerland simply because infringements of competition law continue to take place. Competition law is a complex field, evolving day by day through new legal precedents and rulings from appellate courts. Numerous investigations by COMCO have lasted several years. There are also several competition law cases that have been pending in front of appellate courts for a number of years. These long periods are tangible indications for the complexity of competition law. Certain industries and international corporations may have already established a sense of awareness for issues of competition law. However, unlike moral principles protected by criminal law, the concept of effective competition is not innate, which is why undertakings increasingly conduct competition law compliance trainings and compliance reviews. Therefore, a criminalisation of anti-competitive behaviour and the attribution of criminal liability of competition law infringements to individuals seems premature as of today.

[55]Evaluation on the CartA (2009), p. XX, https://www.weko.admin.ch/weko/de/home/dokumentation/evaluation-und-revision-des-kg/evaluation-des-kartellgesetzes.html. Accessed 31 October 2018.

# United Kingdom

# 12

Richard Jenkinson

## 12.1 Overview and Summary

This Report has been prepared to assist the International Rapporteur in reporting to the LIDC congress in Budapest in October 2018. It has been prepared in accordance with the Directives and Instructions issued by LIDC last amended in October 2014. It follows the structure of the questions for National Reporters that were issued in February 2018. A draft version of this Report was circulated to members of the Competition Law Association (**CLA**) in May 2018. This Report reflects the views expressed by CLA members at a meeting held on 30 May 2018 to discuss the draft. The Report states the law as at 30 May 2018 and, given the fast moving nature of this area of law, has subsequently been overtaken by events in a number of respects. The following developments between 30 May 2018 and 7 May 2019 are particularly noteworthy: (1) the CMA has continued to disqualify directors for breaches of competition law, such that director disqualification proceedings should now be expected in all UK Competition Act proceedings; (2) the CMA has published new guidance on its approach to director disqualifications; and (3) while the UK's departure from the EU has been postponed twice (so far), a wide variety of guidance and draft legislation has been published setting out how UK law will change, as well as how it will relate to EU competition law going forward.

As this Report notes, the UK competition regime has rules that govern the attribution of civil liability to the company and parent company, as well as the attribution of criminal liability to individuals (whether or not they occupy management positions within infringing businesses). The UK also has a director disqualification regime, under which directors of companies infringing competition law may be disqualified from acting as company directors for long periods of time.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_12

The UK's enforcement powers against individuals have been underused: it appears that this relates to the difficulty in securing a criminal conviction against an individual for cartel behaviour in the courts. However, there has been an increasing use of director disqualification powers in recent years. Enforcement against businesses has also lagged behind equivalent jurisdictions, such as Germany.

It appears that director disqualification against individuals strikes the right balance: as a penalty that has widespread public support (unlike imprisonment) and one that is achievable in a wide variety of cases. This Report recommends its continued use and suggests that the statutory powers of director disqualification be expanded to cover those who were not directors at the time of the infringement of competition law. Given the difficulties in bringing criminal cartel cases, and the disruption that they cause to civil enforcement and follow-on damages actions, this Report recommends that criminal powers be reserved only for the most egregious cases. For these, as well as the serious political implications of doing so, this Report recommends that an EU-wide cartel offence be *not* introduced.

Regular monitoring of public awareness of competition law should also be done in order to assess and maximise deterrence effects given that, even if enforcement is stepped up considerably, competition cases will still be relatively rare.

Finally, this Report notes that if the UK leaves the EU (and so the European Competition Network (ECN)), it will be able to enter into a new memorandum of understanding with the European Commission ('Commission'), which may allow for the use of evidence transmitted by the Commission in proceedings against individuals. This Report also notes that, given that the UK authorities would need to conduct dawn raids on UK soil on the Commission's behalf post-Brexit, UK authorities would also be able to gather evidence in a manner that allows the evidence collected to be used against individuals in domestic competition proceedings. Enforcement against individuals may well increase post-Brexit as a result.

## 12.2 The Legal Position in the UK

### 12.2.1 Article 101/102 Equivalents

The UK Competition Act[1] contains prohibitions against anticompetitive agreements between undertakings[2] (commonly referred to as the 'Chapter I Prohibition') and abuses of dominance[3] (commonly referred to as the 'Chapter II Prohibition'). The Chapter I and Chapter II Prohibitions are designed to mirror the prohibitions contained within Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU), the main difference being that the UK prohibitions apply when trade within the UK has been affected, rather than trade between EU Member States. As with Articles 101 and 102 TFEU, the Chapter I and Chapter II

[1]Competition Act 1998 ('**CA98**').

[2]Section 2 CA98.

[3]Section 18 CA98.

Prohibitions only apply to natural persons where the natural person is the undertaking.[4]

This mirroring effect is complemented by a statutory principle[5] enshrined in the CA98 itself designed to *ensure so far as is possible (having regard to any relevant differences between the provisions concerned), questions arising under this Part in relation to competition within the United Kingdom are dealt with in a manner which is consistent with the treatment of corresponding questions arising in law in relation to competition within the European Union.*[6]

### 12.2.2 Criminal Offences

The criminal offence for breaches of competition law (commonly referred to as the 'cartel offence') is not found in the CA98 but rather in the (amended) UK Enterprise Act 2002.[7] The cartel offence in its current form[8] (the 'new cartel offence') has been in force since 1 April 2014. The previous cartel offence (the 'original cartel offence') came into force on 20 June 2003, prior to which the UK had no dedicated cartel offence.[9] Given that there has never been a prosecution of the new cartel offence, this Report outlines the UK's experiences of both the new cartel offence and the original cartel offence. Given that the new cartel offence and the original cartel offence share certain similarities, this Report has found it useful to refer to the 'cartel offences' when describing features common to the two.

As the names suggest, the cartel offences only cover certain types of anticompetitive agreements. Both cartel offences cover price fixing, supply/production limitation, market sharing, allocation of customers and bid rigging.[10] Abuses of dominance are not, in of themselves, criminalised.[11] The cartel offences do not apply solely to directors or senior management but instead apply to any natural person involved in the anticompetitive behaviour.[12] While no attempts have been made to pursue such cases against individuals, there is no reason why a prosecution could not be brought in relation to the cartel offences for the inchoate English law criminal offences related to attempting or conspiring to commit an offence or encouraging/assisting another to commit an offence.

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[4]For example, a sole trader.

[5]Set out at Section 60 CA98.

[6]Section 60(1) CA98.

[7]Enterprise Act 2002 ('EA02').

[8]Rather than enshrining the cartel offence within a new Act, the UK the Enterprise and Regulatory Reform Act 2013 amended the existing EA02 offence.

[9]Cartelists *were* prosecuted for conspiracy to defraud on occasion where 'aggravating' features of the cartel were present. However, there was nothing intrinsically criminal involved in entering a secret cartel. See *Norris v United States of America* [2008] UKHL 16 at paragraph 63.

[10]Section 188, EA02 (as amended and original).

[11]Some behaviour could, however, be both an abuse of dominance *and* a crime.

[12]The cartel offences apply only to natural persons.

The original cartel offence had a dishonesty requirement, with an individual committing the offence needing to have been dishonest while doing so.[13] During the period in which the original cartel offence was in force, the *Ghosh* test[14] was the test used to ascertain whether a defendant had been dishonest. In order to be held to be dishonest under the *Ghosh* test, a defendant must be found (1) to have acted in a manner that a reasonable and honest person would consider to be dishonest and (2) to have known that her actions were dishonest in the eyes of a reasonable and honest person. The second limb of the *Ghosh* test was struck down by the UK Supreme Court in 2017,[15] meaning that a defendant no longer needs to have known that her actions were dishonest in order to be held to have been dishonest. Case law in English law is retrospective (unlike the vast majority of criminal statutes, including the new cartel offence), meaning that the revised dishonesty test will apply to a hypothetical future prosecution based on the original cartel offence (i.e. for conduct predating 1 April 2014).

As is normal in English criminal law and unlike the situation in many jurisdictions (including the European Commission's ('Commission') powers to enforce Articles 101 and 102 TFEU[16]), there is no statute of limitations for either the cartel offences[17] or for the Chapter I and Chapter II Prohibitions.[18] Given that the UK's competition authorities are not subject to the same limitation period as the Commission, the UK authorities may also enforce Articles 101 and 102 TFEU after the Commission's own limitation period has expired.[19]

The new cartel offence does not have a dishonesty requirement, with the amended EA02 instead introducing two new sections setting out circumstances in which the new cartel offence is not committed[20] (circumstances which a *prosecutor* must prove beyond reasonable doubt *do not* apply) and defences to the new cartel offence[21] (which a *defendant* must prove on a balance of probabilities *do* apply).

The exemptions all relate to where the prima facie infringements have been publicised in some way (the 'Publication Exemptions'). The new cartel offence is not committed where, under the prima facie infringing arrangements, customers would have foreknowledge of the arrangements prior to entering into a supply

[13]Section 188(1) EA02 (original).

[14]From *R v Ghosh* [1982] EWCA Crim 2.

[15]In *Ivey v Genting Casinos (UK) Ltd t/a Crockfords* [2017] UKSC 67.

[16]Article 25 of European Council Regulation 1/2003 (the 'Procedural Regulation') provides for a 5-year limitation period to open a case beginning on the date on which the infringement was committed (in the case of one off infringement) or ceased (in the case of continuing infringements), after which the Commission cannot impose a penalty.

[17]Meaning that there is still the possibility, albeit small, that further prosecutions of the original cartel offence will be brought in future.

[18]*Quarmby Construction Company Ltd v OFT* [2011] CAT 11, paragraph 47.

[19]Given that (1) *Quarmby Construction Company Ltd* concerned the application of Section 36 CA98, which also contains the CMA's powers to fine undertakings for breaching Articles 101 and 102 TFEU; and (2) the Article 25 Procedural Regulation limitation period applies only to the Commission.

[20]Section 188A EA02.

[21]Section 188B EA02.

agreement[22] or (in the case of bid rigging) at the time that bids were made.[23] No offence is committed where relevant information regarding the arrangements is published in the London Gazette, Belfast Gazette or Edinburgh Gazette[24] or where the arrangements are part of a legal requirement.[25]

Two out of the three defences to the new cartel offence also concern information disclosure (the 'Publication Defences'). It is a defence if the defendant can prove that, at the time of making the arrangements, she did not intend to conceal the nature of the arrangements from (1) customers prior to the customers entering into agreements for the supply of products or services or (2) the Competition and Markets Authority (**CMA**), the UK's main competition authority.

It is also a defence for a defendant to show that she took reasonable steps to ensure that the arrangements in question were disclosed to professional legal advisors for the purposes of obtaining advice about them before making the arrangements or (as the case may be) implementing the arrangements[26] (the '**Legal Advice Defence**'). Notably, it is irrelevant whether or not legal advice was given or (if it was) what that legal advice actually *said*.

Much ink has been spilled on how the Legal Advice Defence effectively allows defendants to write their own 'get out of jail free' cards by taking their clearly illegal arrangements to a lawyer (or even by stopping just short of doing so). However, there are practical reasons why the Legal Advice Defence is drafted the way that it is. An employee on the commercial side of a business (i.e. one who would enter into anticompetitive arrangements with competitors) typically has a very limited ability to require her manager to seek professional advice. With respect to the content of the legal advice, in order to introduce the content of the legal advice into evidence, privilege over that legal advice would need to be waived. In the vast majority of cases, this privilege would not be the defendant's to waive as the advice would have been sought by the defendant's employer. Given that the legal advice would potentially be highly prejudicial to the defendant's employer, it is unlikely that the employer would waive the privilege in all circumstances.

The Publication Exemptions, Publication Defences and Legal Advice Defence to the new cartel offence can be read together as having created a bespoke definition of honesty, which supplants that of the average reasonable person in the street (defining 'honesty' as a lack of concealment, or the seeking of legal advice). A defendant is innocent of the new cartel offence if she has not concealed her cartel arrangements or if she took legal advice on the subject. As noted below,[27] there is an apparent lack of

[22]Section 188A(1)(a) EA02.

[23]Section 188A(1)(b) EA02.

[24]The EA02 (Publishing of Relevant Information under section 188A) Order 2014 exercising the powers granted to the Secretary of State by section 188(1)(a)(c) EA02.

[25]Section 188A(3) EA02. The definition of 'legal requirement' used is that set out in Paragraph 5 of Schedule 3 CA98 and means a requirement imposed by UK or EU law, or the law of a Member State having legal effect in the UK.

[26]Section 188B(3) EA02.

[27]See Sect. 12.3.3 below.

awareness of the average reasonable person in the street of the unlawfulness of even the behaviours that make up the cartel offence. This being the case, it was unlikely that any defendant would be held to be 'dishonest' absent other external factors, such as a company competition compliance programme.

While an agreement is required in order for the cartel offences to exist, the additional requirements, exceptions and defences to each cartel offence make it possible for one individual within a cartel arrangement to have committed a cartel offence while the others did not. For example, in in original cartel offence case, CE/9705/12 ('Precast Concrete Drainage Criminal Investigation'), the only individual found guilty at the conclusion of the case had signed a competition compliance policy.[28] Signing a compliance policy amounted to a dishonest misrepresentation of his actions to the wider business. Likewise, with respect to the new cartel offence, a participant to a cartel arrangement would be unlikely to involve other cartel members in a decision as to whether or not to seek legal advice (and so make available the Legal Advice Defence).

### 12.2.3 Relationship Between the Civil and Criminal Prohibitions

The cartel offences are largely freestanding of the Chapter I and Article 101 prohibitions. The only reference to the CA98 Chapter I Prohibition in the new and original cartel offences relates to the definition of an undertaking (at least two of which must conspire in order for either cartel offence to have occurred). Notably, the behaviours prohibited by the cartel offences are not explicitly tied back to Chapter I or Article 101.

The CMA takes the approach of concluding its criminal cartel investigations prior to taking significant steps in its civil proceedings,[29] although the latter cases are often opened prior to the conclusion of the former.

This consecutive (rather than concurrent) approach is likely a result of the failure of the CMA's predecessor, the Office of Fair Trading's (OFT's), prosecution in the 'Air Passenger Fuel Surcharge Criminal Investigation'.[30] The trial collapsed as a result of the late discovery of several thousand documents in the possession of the immunity applicant in the concurrently run 'Air Passenger Fuel Surcharge Civil Investigation'.[31] The material would have been potentially disclosable to the

[28] Precast Concrete Drainage Criminal Investigation, sentencing hearing 15 September 2017.

[29] The CMA's civil investigation CE/9691/12 ('Galvanized Steel Tanks Civil Investigation') was opened on 27 November 2012, but did not issue a statement of objections until May 2016, long after the sentencing at the conclusion of the original cartel offence investigation in case CE/9623/12 ('Galvanized Steel Tanks Criminal Investigation') on 14 September 2015. The final decision in the Galvanized Steel Tanks Civil Investigation was issued on 19 December 2016. The CMA's civil investigation 50299 ('Precast Concrete Drainage Civil Investigation') has not issued a statement of objections, the sentencing at the conclusion of the Precast Concrete Drainage Criminal Investigation having taken place on 15 September 2017.

[30] *R v George, Crawley, Burns and Burnett* 2008 (unreported).

[31] Case CE/7691-06.

defendants in the Air Passenger Fuel Surcharge Criminal Investigation but could not be reviewed in time to verify this. As a result, the OFT offered no evidence, thus ending the criminal trial. Running the civil and criminal cases simultaneously increases the chances that a large disclosure of documents will come unexpectedly from the civil side. If the two investigations must be done consecutively, then it makes sense to do the criminal case first as all the evidence gathered is likely to be usable in the civil case. The same is not true the other way around.[32]

### 12.2.4 Competition Authorities and Their Priorities

The CMA was created by the Enterprise and Regulatory Reform Act 2013 (ERRA), which established the CMA's main duty as being to 'promote competition, both within and outside the United Kingdom, for the benefit of consumers'.[33]

This consumer benefit has been interpreted in monetary terms. The CMA has also been set the target by the UK Government of saving the public GBP 10 in direct consumer benefit for every GBP 1 that it spends. The CMA publishes annual impact assessments ('Impact Assessments'),[34] as mandated by the Performance Management Framework published by the UK Government in 2014[35] (the 'Performance Management Framework').

The Impact Assessments estimate how much money the CMA has saved consumers. Only direct savings are included (e.g. as a result of an infringement being brought to an end or an anticompetitive merger being blocked or modified). Indirect savings are not included (e.g. enforcement acting as a deterrent and causing other cartels not to be entered into or to be terminated), despite evidence suggesting that these may be significant.[36]

With regard to enforcement, the Performance Management Framework sets five specific strategic goals for the CMA to

1. 'make strong and effective use of all its competition tools across a range of projects';
2. 'select and conclude an appropriate mix of cases, including economically complex 'effects' cases and multiparty cartel cases, to maximise impact, end abuse and create a credible deterrent effect across the economy';

[32] See Sect. 12.3.6 below.

[33] Section 25, ERRA.

[34] The latest Impact Assessment available at the time of writing is for the year ending 31 March 2017.

[35] CMA Performance Management Framework, January 2014.

[36] The OFT publication 'The impact of competition interventions on compliance and deterrence' (OFT 1391, December 2011) concluded that for the period 2003–2011: (1) 28 cartels were deterred for every cartel investigation; (2) 40 other anticompetitive agreements were deterred for every anticompetitive agreement investigated; and (3) 12 abuses of dominance were deterred for every abuse of dominance investigated.

3. 'seek to conclude more and swifter cases while maintaining fairness and without this being at the expense of lower financial penalties';
4. 'ensure its decisions are robust to achieve a greater number of successfully concluded cases and investigations compared to the historical record'; and
5. 'increase the proportion of successful defences against appeals of its infringement decisions'.

The Performance Management Framework therefore adds to the simple consumer savings goals of the CMA by mandating that the CMA pursue a mix of cases that touch on a variety of infringements while at the same time working faster and more successfully (in terms of having more infringement decisions that survive the appeals process) than the OFT.

The CMA is additionally given a 'Strategic Steer' by the UK Government, which is a non-binding statement of strategic priorities for outlining the government's aims for the CMA to which the CMA must have regard.[37] The latest Strategic Steer pins its ideological colours to the mast, opening with a Milton Friedman quote. With respect to enforcement, the Strategic Steer notes that the CMA should 'conclude enforcement cases as quickly as possible ensuring that it has the maximum possible positive impact on the welfare of consumers', as well as that it should use 'a mix of powers . . . to detect and punish cartels and other abuses, and deter anti-competitive actions'.

Additional goals are set out in the CMA's 'Annual Plans'.[38] With respect to enforcement, the CMA's latest Annual Plan states that the CMA will take forward 'a higher volume of cases, and doing so as efficiently and quickly as possible, without compromising fairness and rigour'. The Annual Plan also states that the CMA will continue to 'seek disqualification of directors of companies that breach competition law, to ensure unsuitable individuals cannot serve as company directors and in the most serious cases, [the CMA] will pursue criminal prosecutions'.

The CMA is not the only UK competition authority capable of enforcing the Chapter I/Article 101 and Chapter 2/Article 102 Prohibitions. The Civil Aviation Authority (CAA), Financial Conduct Authority (FCA), Payment Services Regulator (PSR), Office of Communications (Ofcom)' Office of Gas and Electricity Markets (Ofgem), Water Services Regulation Authority (Ofwat), Office of Rail and Road (ORR) and Northern Ireland Authority for Utility Regulation (NIAUR) all have the power to enforce the Chapter I/Article 101 and Chapter 2/Article 102 Prohibitions in the sectors of the UK economy over which they exercise supervision. All these authorities (the 'Sectoral Regulators'),[39] along with the CMA, are members of the

[37]The latest of these was published in December 2015. Despite a new British Parliament being elected in 2017, an updated Strategic Steer had not been published at the time of writing.

[38]The latest of these at the time of writing was for the year commencing 1 April 2018.

[39]With reference to the enforcement of the Chapter I/Article 101 and Chapter II/Article 102 prohibitions, the Sectoral Regulators have effectively the same powers as the CMA and in nearly all cases Sectoral Regulators adopt the CMA's Guidance when pursuing cases. As a result of this, and the dearth of Sectoral Regulator competition cases, this Report refers almost exclusively to the CMA.

UK Competition Network (UKCN), which coordinates UK competition law enforcement.[40] The cartel offences are not prosecuted by the Sectoral Regulators. Only three CA98 infringement decisions have been made by the Sectoral Regulators: one each by the CAA, Ofgem and the ORR.[41]

Each Sectoral Regulator has its own strategic objectives. Each is bound by a primacy obligation,[42] which states that before making certain decisions, the Sectoral Regulator must consider whether it may be more appropriate to proceed under CA98 and enforce the Chapter I/Article 101 and/or Chapter 2/Article 102 Prohibitions. Where the Sectoral Regulator does consider it to be more appropriate, it must use its competition powers rather than its bespoke regulatory powers.

'Appropriate' is not defined for any of the Sectoral Regulators. The CMA's Regulated Industries: Guidance on concurrent application of competition law to regulated industries[43] suggests that this may occur where the use of competition law powers may be more effective or provide a greater deterrent and precedent effect for the benefit of competition and consumers.[44]

As well as enforcing competition law, the Sectoral Regulators regulate the sectors of the UK economy. As a rule, this regulation is intended to promote competition in the sector, for example through requiring that owners of infrastructure allow access to third parties.

### 12.2.5 Ne Bis in Idem

The principle of *ne bis in idem* (or 'double jeopardy') is recognised in the Concurrency Regulations. The principle is also recognised in the primacy obligation: once their competition powers are used, the Sectoral Regulators are precluded from pursuing enforcement in a given case using their regulatory powers.

[40]While the now-defunct healthcare regulator, Monitor, is said on the UKCN website to have 'observer' status, there is no reference to this observer status having been taken up by NHS Improvement, the successor body to Monitor.

[41]A complete list of competition cases brought by the Sectoral Regulators since the founding of the UKCN in 2014 is available on https://www.gov.uk/government/publications/competition-act-1998-cases-in-the-sectors-regulated-by-ukcn-members/competition-act-1998-cases-in-the-regulated-sectors. Accessed 6 June 2018. The only infringement decision by a Sectoral Regulator since 2014 (by the CAA for price fixing at Manchester Airport Car Parks) did not result in fines as one undertaking sought and received immunity and the other had no revenue in the relevant market. In 2010, Ofgem fined National Grid £41,600,000 for breaching the Chapter II/Article 102 prohibition, which was reduced to £15,000,000 on appeal. In 2006, the ORR fined EWS £4,100,000 for breaching the Chapter II/Article 102 prohibition.

[42]Schedule 14 ERRA amends the legislation affecting the CAA, Ofcom, Ofgem, Ofwat, the ORR and NIAUR to insert this obligation. With regard to the PSR, this is set out at section 62 FSBRA and with regard to the FCA, this is set out at section 234K of the amended Financial Services and Markets Act 2002.

[43]CMA10, March 2014.

[44]Ibid, paragraph 4.3.

Given Section 60 CA98,[45] if the English Court were to consider *ne bis in idem* in hybrid competition and regulatory cases, it would note that the European Court of Justice has consistently held that competition rules may apply where sector-specific legislation exists.[46] According to the European Court of Justice, the regulatory infringement and the competition infringement are capable of being two separate acts, despite being based on the same facts.

The UKCN members also appear to take this approach. *Ne bis in idem* has notably not prevented the FCA from pursuing enforcement action for LIBOR manipulation[47] against undertakings under investigation by the Commission for the same behaviour[48] using its regulatory powers. Notably, the FCA's fining decisions do not take into account the prospect of a fine for the same behaviour being imposed by the Commission for a breach of Article 101.[49] Additionally, there has been no suggestion that criminal cartel proceedings by the CMA against the director of an undertaking should prevent the CMA from pursuing competition enforcement against the undertaking itself.

Double jeopardy is also relevant for the setting of fines.[50]

### 12.2.6 Sanctions Against Undertakings

As with Articles 101 and 102 TFEU, the maximum penalty for a breach of the Chapters I and II Prohibitions is a fine of up to 10% of an undertaking's worldwide turnover. This is not set by the CA98, which provides for the maximum penalty to be set by the CMA in the form of guidance.[51] The CMA's 'Fining Guidelines'[52] were recently updated following a consultation process. As with the Commission's competition regime, the CMA's fines are purposefully high in order to encourage leniency (among other things), which is rewarded by immunity and reductions from fines, as well as immunity for individuals.[53]

As with the Commission's own Guidelines, the Fining Guidelines allow for fines based on turnover. The previous version of the Fining Guidelines was used by the

[45]See Sect. 12.2.1 above.

[46]ECJ, joined cases C-359/95 and C-379/95 P *Commission and France vs. Ladroke Racing*, ECLI:EU:C:1997:531, pt 34; ECJ, case T-228/97 *Irish Sugar vs. Commission*, ECLI:EU:T:1999:246, pt 130; ECJ, case T-513/93 *Consiglio Nazionale degli Spedizionieri Doganali*, ECLI:EU:T:2000:91, pt 59.

[47]For the FCA's benchmark manipulation fines, including LIBOR, see https://www.fca.org.uk/markets/benchmarks/enforcement (retrieved 6 June 2018).

[48]Case 39914: Euro Interest Rate Derivatives.

[49]See for example the Final Notice for Deutsche Bank dated 23 April 2015.

[50]See Sect. 12.2.6 below.

[51]Section 38(1) CA98.

[52]CMA73, 18 April 2018.

[53]OFT1495, July 2013 is the OFT's detailed guidance on its principles and process in leniency applications, which has since been adopted by the CMA.

CAA to calculate the fine in the only fining decision reached by a Sectoral Regulator.[54]

The Fining Guidelines adopt a six-step approach:

1. A starting point is calculated having regard to the seriousness of the infringement and relevant turnover of the undertaking (up to 30% in the most serious cases[55]).
2. The starting point is adjusted for duration, with duration being used as a multiplier.
3. The resulting figure is adjusted up and down in relation to various aggravating and mitigating factors.
4. Further adjustment to the figure arrived at from step 3 is made to take into account deterrence and proportionality.
5. Further adjustment to the figure arrived at from step 4 is made if necessary to take into account the 10% worldwide turnover cap[56] and to avoid double jeopardy.
6. Further adjustment to the figure arrived at from step 5 is made to take into account leniency and settlement discounts and/or the approval of a voluntary redress scheme.[57]

Unlike in most jurisdictions, implementing a competition compliance programme and publicly committing to it following the infringement is a mitigating factor that can be rewarded with up to a 10% reduction from the fine.[58] The mere introduction of such a programme is not sufficient; rather, a clear and unambiguous commitment must be made to achieve competition law compliance from the top down. Risk identification, risk assessment, risk mitigation and review activities may all be necessary to secure the 10% discount. Only in exceptional circumstances (for example, where compliance activities are used to conceal or facilitate an infringement or to mislead the CMA) do the Fining Guidelines state that compliance activities will be treated as an aggravating factor.

Recidivism is taken into account at stage 3, with the CMA Guidance stating that recidivism may result in the amount reached following the application of stages 1 and 2 being increased by 100% as a result. Recidivism is defined in the CMA Guidance[59] as the undertaking continuing or repeating the same or a similar infringement following a decision by the Commission, the CMA or a Sectoral

[54]See footnote 42.

[55]Fining Guidelines, paragraph 2.4.

[56]With respect to trade associations, the 10% worldwide turnover cap applies to the sum of the worldwide turnover of each member of the association of undertakings active on the market affected by the infringement. See paragraph 2.2.7 of the Fining Guidelines.

[57]The voluntary redress scheme is a new addition to the Fining Guidelines. See further Sect. 12.2.10.

[58]Fining Guidelines, footnote 33. A 5% discount for a compliance programme was awarded in the CMA's decision in Case CE/9857-14, 10 May 2016 (Bathroom Fittings) and a 10% discount was awarded in the CMA's decision in Case CE/9784-13, 20 August 2015 (Eye Surgeons).

[59]At footnote 30.

Regulator that the conduct infringed the Chapter I/Article 101 and Chapter 2/Article 102 Prohibitions. It does not, therefore, apply in situations where an undertaking's involvement in several infringements is uncovered at the same time.

At stage 5, the CMA may consider reducing a fine to take into account a fine imposed by a regulator for the same act (as the Commission did in its abuse of dominance decision fining Telekomunikacja Polska for an abuse of dominance).[60]

This fine can only be imposed against an undertaking, not an individual.[61] Additionally, the undertaking that has been fined is prevented through the maxim *ex turpi causa non oritur actio*[62] from retrieving fines imposed by a competition authority (nor, by implication, competition damages) from the individual who implemented or failed to prevent a breach of competition law.

With regard to the trade associations, the CMA has taken a very different approach in two recent cases. In the Eye Surgeons Case,[63] the CMA took the relevant turnover of the trade association's members in order to calculate the starting point at stage 1.[64] This resulted in a fine for the trade association of £382,500. In the Modelling Sector Case, the CMA did not take into account members' turnover in calculating the starting point for the trade association. As a result, the fine was zero until stage 4 (deterrence and proportionality) was reached. At this point, a small penalty of £2500 was imposed on the trade association that was considered 'appropriate and proportionate'.[65] The reason for the different approach may have been partly related to the number of members in the trade association. In the Eye Surgeons Case, the trade association in question had hundreds of members, meaning that issuing small fines against each member would have been extremely complex. With respect to the Modelling Sector Case, there were relatively few members of the association, meaning that different fines could be effectively calculated. Also relevant may have been the ease with which each trade association (and by extension, its members) could escape any fine imposed by going into liquidation.

With respect to a trade association requiring its members to contribute to the payment of a fine, unless they are a joint addressee of the fining decision with respect to the fine on the trade association, it is difficult to see how they might legally claim a contribution from members using a mechanism outside their normal funding arrangements. *Ex turpi causa non oritur action* would prevent a civil claim from being launched by the trade association as it would be based on that trade association's own unlawful activity.

[60]Decision in Case 39.525, paragraph 919.

[61]Unless the undertaking is the individual, e.g. a sole trader.

[62]'A claimant may not recover for damage which is the consequence of her own criminal act': see *Safeway Stores Ltd v Twigger* [2010] EWCA Civ 1472, paragraph 27.

[63]Case CE/9784-13, 20 August 2015 (Eye Surgeons).

[64]Decision in case CE/9784-13, from paragraph 5.32.

[65]For example, see the decision in Case CE/9859-14, 16 December 2016 (Modelling Sector), paragraphs 5.91 and 5.101.

### 12.2.7 Sanctions Against Individuals

Both cartel offences are what are known as 'either way' offences, in that they can be tried summarily in the Magistrate's Court (which does not have a jury) or on indictment in the Crown Court (which does have a jury). On summary conviction, the cartel offences are punishable by imprisonment of up to 6 months, an unlimited fine[66] or both.[67] On conviction on indictment, the cartel offences are punishable by imprisonment of up to 5 years, an unlimited fine or both.[68]

In England and Wales, all criminal cases (even those that can only be tried on indictment) begin in the Magistrate's Court, if only for the initial hearing. The vast majority of criminal cases (including cases involving either way offences) remain in the Magistrate's Court (with transfer to the Crown Court occasionally taking place at the election of either the defendant or prosecution).

However, all prosecutions of the original cartel offences were sent to the Crown Court for trial. The CMA's own Guidance on Cartel Offence Prosecution[69] is silent on considerations of when the cartel offences should be tried summarily (in the Magistrate's Court) or on indictment (in the Crown Court in front of a jury). The Sentencing Council's Allocation Guidelines (which apply to all prosecutions) states that all offences should be tried summarily unless (1) the outcome would clearly be a sentence in excess of the Court's powers or (2) for reasons of 'unusual legal, procedural or factual complexity'. Only one trial of the original cartel offence (the '**Marine Hose Criminal Investigation**'[70]) resulted in a sentence in excess of the maximum sentence available in the Magistrate's Court,[71] suggesting that the complexity of cases is a key driver in why all cartel offences cases thus far have been tried in the Crown Court.

There are no sentencing guidelines for the cartel offence, although the appeal against sentencing in the Marine Hose Criminal Investigation[72] did list several factors[73] that said to be non-exhaustive but 'plainly relevant'. The ruling did not indicate how each factor should be weighed against the others.

[66] As with all other unlimited fines referred to in this Report which may be imposed upon summary conviction, the legislation refers not to an unlimited fine but to the 'statutory maximum'. The statutory maximum is now unlimited (section 85 of the Legal Aid, Sentencing and the Punishment of Offenders Act 2012).

[67] Section 190(1)(b) EA02.

[68] Section 190(1)(a) EA02.

[69] CMA9, March 2014—this Guidance is a summary of the cartel offence and codes used by English and Scottish prosecutors when deciding to bring a prosecution. There is nothing contained within it which cannot be found elsewhere.

[70] *R v Whittle, Brammar and Allison* (unreported).

[71] Sentences ranging from 2.5 to 3 years were imposed, these were reduced to 20 months to 2.5 years on appeal.

[72] *R v Whittle, Allison and Brammar* [2008] EWCA Crim 2560, paragraph 34.

[73] Namely the gravity and duration of the offence; the degree of culpability of the defendant in implementing and enforcing the cartel; whether the cartel was contrary to the defendant's company compliance manual; and any mitigating factors such as personal circumstances or duress.

Upon conviction of any offence in the Crown Court, the Court must proceed to a confiscation hearing where it believes it appropriate to do so or upon the request of the prosecutor.[74] As the name suggests, a confiscation order is designed to confiscate from the defendant the gains that she has made as a result of her criminal activity. The presumptions related to whether a defendant's property or expenditure has come about as a result of a defendant's criminal conduct depend on whether or not the defendant has a 'criminal lifestyle' or not.[75] Given that a defendant who commits an offence over at least 6 months and obtains a benefit of at least GBP 5000 is regarded to have a criminal lifestyle, it is very possible (given the long-term nature of most cartels before discovery) that a criminal cartelist would be found to have had a criminal lifestyle.

Criminal cartelists who do not own the businesses on whose behalf they are engaging in cartel activity have only indirect gains from the cartel activity (unless a large proportion of their job functions, and therefore their salary, directly relate to their cartel work). These include performance-related bonuses and additional share dividends (as a result of the cartelised company being more profitable by virtue of the cartel), which are potentially available for confiscation. While this does not preclude a confiscation order, it does make attribution more difficult. Confiscation proceedings have only been brought once in cartel offence cases: in the Marine Hose Criminal Cartel Case. Two of the three defendants were ordered to pay GBP 366,354 and GBP 649,636, respectively, or face a further term of imprisonment.[76]

Where a person is a director of a company that is part of an undertaking that commits a breach of competition law, the Court may make a director disqualification order (**DDO**) disqualifying that person as a director for up to 15 years where the director's conduct makes her 'unfit' to be concerned in the management of the company.[77] 'Unfit' is not defined but rather left to the Court to determine. The relevant legislation does, however, list various matters that the Court must consider and matters that it may consider when making its determination (such as the directors' involvement in or knowledge of the breach). A 'breach of competition law' is defined, but by reference to the *civil* prohibitions on anticompetitive behaviour in effect in UK law (i.e. Chapters I and II of the CA98 and Articles 101 and 102 TFEU) and *not* the cartel offences. As an alternative to being struck off by court order, a director may agree to give an undertaking not to be a director (or take other specified action regarding the formation and management of a company) for up to 15 years[78] (a director disqualification undertaking (**DDU**)). A person who has been disqualified, whether through a DDO or a DDU, is guilty of an

[74] Section 6, Proceeds of Crime Act 2002 ('POCA').

[75] Sections 10 and 75, POCA.

[76] See https://www.gov.uk/cma-cases/marine-hose-criminal-cartel-investigation (retrieved 6 June 2018).

[77] Section 9A Company Directors Disqualification Act (as amended).

[78] *Ibid,* Section 9B.

offence punishable by imprisonment of up to 2 years if she acts as a director[79] and may be held personally responsible for the company's debts.[80] The CMA has stepped up director disqualification in recent years but has not updated the original guidance issued by the OFT.[81]

Additionally, regulatory bodies with the power to fine and ban members/ authorised persons may take action upon being presented with evidence of an individual's involvement in cartel activity. For example, on 5 March 2018, the FCA announced that it had fined a trader for improperly influencing LIBOR submissions, as well as banning him from performing any function in relation to any regulated financial activity.[82]

### 12.2.8 The Relationship Between Sanctions Against Individuals and Undertakings

The Galvanized Steel Tanks Criminal Investigation resulted in a guilty verdict for an employee of one of the three undertakings involved. The decision in the Galvanized Steel Tanks Civil Investigation is therefore a good demonstration of the effect of an original cartel offence investigation and conviction on the subsequent Chapter I/ Article 101 TFEU fining decision. Notably, the undertaking for which the convicted cartelist worked was treated no differently from the other two undertakings (whose employees had been found not guilty having convinced the jury that tried them that they had not behaved dishonestly).

In setting the starting point,[83] the presence of price fixing, bid rigging and market sharing by way of customer allocation (all behaviours caught by the cartel offences[84]) meant that the CMA chose the highest point (30% of relevant turnover) allowed by the Fining Guidelines for all three undertakings.

The involvement of senior employees in the infringement was held to be an aggravating factor, increasing the financial penalty at step 3[85] by 15%.[86] Notably, the 15% uplift was applied equally to all undertakings involved in the infringement: the fact that only one undertaking had employed a person found guilty of the original

[79] *Ibid,* Section 13.

[80] *Ibid,* Section 15.

[81] OFT510, 1 June 2010. Note that the CMA announced on 4 June 2018 that it would be revising OFT510. At the same time as this announcement, the CMA deleted a paragraph from OFT510 in recognition of the fact that, in order for an appeal against a DDO to be heard in the CAT the same time as an appeal against an infringement decision or penalty, disqualification proceedings would need to start earlier than provided for in the now-deleted paragraph of OFT510.

[82] See press release dated 5 March 2018 (https://www.fca.org.uk/news/press-releases/fca-fines-and-bans-former-deutsche-bank-trader-guillaume-adolph (retrieved 6 June 2018)).

[83] See Sect. 12.2.6 above.

[84] See Sect. 12.2.2 above.

[85] See Sect. 12.2.6 above.

[86] Galvanized Steel Tanks Civil Investigation decision, paragraph 5.30.

cartel offence does not appear to have been regarded as an aggravating or mitigating factor.

The dishonesty of the employee of one undertaking and the honesty of the employees of the other two undertakings (as found by the original cartel offence trials) had no bearing on the eventual fine. This is consistent with the more general principle contained within the European Court of Justice's rulings[87] that intent is not a necessary factor in determining whether an agreement between undertakings is restrictive of competition.[88]

The decision in the Galvanized Steel Tanks Civil Investigation shows that there is no direct relationship between the imposition of a sanction on an employee (or its absence) and the imposition of a sanction on that employee's undertaking for anticompetitive behaviour. Indirectly, only the more severe anticompetitive agreements are caught by the cartel offences, meaning that the starting point for fines will be set at a higher proportion of turnover in cases where criminal sanctions are a possibility.

### 12.2.9 Additional Sanctions for Non-cooperation

Like the Commission's competition enforcement regime on which it is based, the CMA's competition law regime contains penalties for non-cooperation during its investigations, which can apply to individuals and to undertakings.[89] While the CMA has previously issued a fine against an undertaking for non-cooperation,[90] it has not sanctioned individuals.

Providing false or materially misleading information to the CMA in the course of the CMA's enforcement of its CA98 investigations, either knowingly or recklessly, is an offence punishable by an unlimited fine on summary conviction and an unlimited fine and 2 years' imprisonment if convicted on indictment.[91] This offence applies to persons providing the CMA directly with the false or materially misleading information and to persons providing the information to another person knowing that the information will be provided to the CMA.[92] Destroying or falsifying documents requested by the CMA under its CA98 powers is also punishable by the same sanctions,[93] as is the obstruction of an officer exercising

[87]Read across into the Chapter I CA98 case law by virtue of Section 60 CA98.

[88]ECJ, case C-67/13P *Cartes Bancaires v Commission*, ECLI:EU:C:2014:2204, pt 54.

[89]Additional powers exist under the EA02 with respect to penalties for non-cooperation/providing misleading information in relation to the CMA's merger control and market investigation inquiries.

[90]See CMA decision of 12 April 2016 in Case CE/9742-13 fining Pfizer for failing to provide information.

[91]See Sect. 12.2.7 for an explanation of the difference between summary conviction and conviction on indictment.

[92]Section 44 CA98.

[93]Section 43 CA98.

the CMA's powers of entry to a premises with a warrant.[94] Where the CMA has not used a warrant, the penalty is merely an unlimited fine.[95] Officers of a company are also guilty of these offences if it is shown that they consented or connived in the committal of the offence or if the offence is attributable to the officer's neglect.[96]

The CMA can also fine a person (including a legal person) for a failure to comply with a requirement imposed under its CA98 powers to answer questions, provide information or allow entry to premises. The penalty can be fixed, calculated by reference to a daily rate or a combination of the two.[97] The CMA's approach is set out in further detail in its Statement of Policy on its approach to Administrative Penalties.[98]

With respect to the CMA's cartel investigations, the picture is similar. The CMA has powers to enter premises under a warrant and gather information as part of its investigations into the cartel offence.[99] It also has the power to require the person under investigation or any other person who it believes has relevant information to answer questions or provide information (including producing documents and providing explanations of those documents).[100] Failing to comply with a requirement imposed by the CMA under these powers without reasonable excuse is an offence punishable by imprisonment of up to 6 months and a fine not exceeding level 5[101] on the standard scale.[102] Knowingly or recklessly making a misleading statement in response to the CMA while purportedly complying with these requirements is an offence[103] punishable by imprisonment for up to 6 months and an unlimited fine on summary conviction and imprisonment for up to 2 years and an unlimited fine if convicted on indictment. Intentionally obstructing a person exercising powers under a S.194 EA02 warrant is guilty of an offence punishable by an unlimited fine upon summary conviction and imprisonment of up to 2 years and an unlimited fine upon conviction on indictment. As with Commission investigations, individuals may refuse to answer where the answer may be self-incriminating.

The most serious ancillary penalties in relation to the cartel offences are for the falsification, destruction, concealment or disposal of documents where a person knows or suspects that a cartel offence investigation is or is likely to be carried out.[104] Here the penalties are up to 6 months' imprisonment and an unlimited fine upon summary conviction and up to 5 years' imprisonment and an unlimited fine upon conviction on indictment.

[94] Section 42 CA98.
[95] Section 42 CA98.
[96] Section 72 CA98.
[97] Section 40A CA98.
[98] CMA4, January 2014.
[99] Section 194 EA02.
[100] Section 193 EA02.
[101] Currently GBP 5000.
[102] Section 201 EA02.
[103] Section 201(2) EA02.
[104] Section 201(5) EA02.

### 12.2.10 Competition Damages and Their Relationship to the Penalty Regime

Competition damages are available in the English courts, with the claimant's cause of action typically being a breach of statutory duty.[105] The UK implemented Directive 2014/104/EU (the 'Antitrust Damages Directive') through passing the Claims in Respect of Loss or Damage Arising from Competition Infringements (CA98 1998 and Other Enactments (Amendment)) Regulations 2017 (the 'Damages Regulations'). The Damages Regulations put into English law provisions in the Antitrust Damages Directive that had (until then) not been explicit in English law, such as the presumption that cartels cause harm.[106]

Exemplary damages (i.e. damages in excess of a claimant's actual losses) are precluded by the Damages Regulations[107] but only with regard to claims related to competition infringements that began on or after 8 March 2017.[108] For competition infringements beginning before this date, exemplary damages are available in cases where (1) the infringement has not been punished by a fine by a competition authority and (2) the defendant showed a 'cynical disregard' for the claimant's rights.[109] Given the high bar, exemplary damages have only been awarded once by the English Court,[110] and even then the damages awarded were a small fraction of the sums sought.[111]

Following the recent adoption of the CMA's Fining Guidelines on 18 April 2018, undertakings fined by the CMA have the opportunity to reduce their fine by entering into voluntary redress schemes.[112] The CMA has published Guidance on the approval of voluntary redress schemes for infringements of competition law.[113] An applicant may submit a voluntary redress scheme to the CMA or a Sectoral Regulator for approval.[114] The voluntary redress scheme, once approved, allows victims of the competition infringement to make claims through the scheme rather than through the courts, which it is hoped will increase the availability of follow-on damages.

Interestingly, the maxim *ex turpi causa non oritur actio*, which prevents undertakings from claiming damages from their competition-law-infringing employees, would not apply to a competition damages claimant. This means that

[105] *Garden Court Foods v Milk Marketing Board* [1984] AC 130.

[106] Part 4, Damages Regulations.

[107] Paragraph 36 Damages Regulations.

[108] Paragraph 42 Damages Regulations.

[109] *Albion Water Limited v Dŵr Cymru Cyfyngedig* [2010] CAT 31.

[110] Although this Reporter is aware of at least one other case where they were paid as part of a settlement agreement.

[111] *Travel Group PLC (in liquidation) v Cardiff City Transport Services Limited* [2012] CAT 19.

[112] See Sect. 12.2.6 above.

[113] CMA40, 14 August 2015.

[114] Section 49C CA98.

competition damages are, theoretically, available from the individuals involved in a competition law infringement. This Reporter is unaware of any attempt by a cartel victim[115] to bring a damages action against an individual in the English court for a breach of competition law. Such an action would only be worthwhile if (1) a claim against the undertaking on whose behalf the individual had been acting was impossible (e.g. due to the subsequent liquidation of the undertaking's constituent legal entities), (2) a claim against any other undertakings involved in the infringement who could be held joint and severally liable was also impossible and (3) the individual had sufficient resources to pay the damages claimed. An individual who resides in the UK may also be useful as an anchor defendant in the event that no other potential defendants can be found.

With respect to (3), the individual may have sufficient resources to pay the damages claimed by virtue of her Directors and Officers Liability Insurance ('D&O'). While D&O policies in the UK exclude from cover claims resulting from the insured's dishonest or criminal behaviour (meaning that any liability resulting from the commission of the cartel offences would be excluded), they can sometimes make limited exceptions in relation to civil penalties. It is therefore technically possible for a D&O policy to pay out for competition damages for an individual's non-criminal but still unlawfully anticompetitive acts.

The statutory duties imposed by the TFEU and CA98 competition law prohibitions apply to *undertakings* and not to individuals. It is therefore not certain that a court would allow a claim against an individual (who was not an undertaking) for her involvement in a breach of these prohibitions. The English courts have proven reluctant to expand the scope of competition damages claims beyond those expressly permitted.[116]

### 12.2.11 Parental Liability

In order to function, competition law must pierce the corporate veil. For example, it is clear that company pricing and marketing strategies dictated at the group level are not regarded as unlawful coordination between entities that should be acting independently. It makes sense and seems appropriate that the fines imposed by competition law also pierce the corporate veil and look at group rather than the individual infringing entities.

Given that the Chapter I/Chapter II Prohibitions are effectively identical to the Article 101/102 Prohibitions aside from the territory in which the prohibition

[115] Rather than the undertaking fined for the cartel activity: see *Safeway Stores Ltd v Twigger* [2010] EWCA Civ 1472.

[116] For example, in *Air Canada & Ors v Emerald Supplies Limited & Ors* [2015] EWCA Civ 1024, the Court of Appeal refused to allow the claimants to expand the scope of the claim to include conduct which took place outside the EU using the tort of conspiracy and the tort of interference.

applies, it is unsurprising that the UK competition authorities adopt the same approach with regard to the concept of 'undertaking' as the Commission.

A parent company and its subsidiaries will be treated as a single undertaking where the subsidiaries lack economic independence.[117] UK competition law also considers the exercise of decisive influence in relation to wholly owned companies in the same way as the European Commission and courts, applying the test set out in *Akzo Nobel NV v Commission*[118] in domestic cases.[119]

A good illustration of the UK competition authorities' practice can be seen in the OFT's decision in 2009 on bid rigging in the construction industry.[120] The OFT took the view that companies within the same corporate group that formed a single undertaking were jointly and severally liable for the infringements. In that decision, the OFT states:

> In this regard, it is important to note that the effective enforcement of competition law depends on ensuring that all legal entities with responsibility for the commission of an infringement are susceptible to the relevant sanctions for that infringement. This includes (current and former) parent companies who, although not directly involved in the infringing acts, could have influenced the policies and conduct of their subsidiaries to prevent such infringements but failed to do so.

The decision makes clear the following:

1. Like the Commission, the CMA will hold that the exercise of decisive influence can be presumed where a subsidiary is wholly owned by its parent, whether directly or indirectly. No further evidence is required.
2. The CMA does not need to establish that the parent did *in fact* exert decisive influence where it is able to presume that the parent held decisive influence.
3. The presumption will be further supported where additional indicia of decisive influence exist, for example the use of the same commercial logo or name, a parent being active on the same or adjacent markets to the subsidiary, direct instructions being given by a parent to a subsidiary or the two entities having shared directors.[121]

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[117] See OFT Guidance on Enforcement (OFT407), paragraph 5.41. This Guidance has been adopted by the CMA.

[118] ECJ, case C-97/08 P, *Akzo Nobel v Commission*, ECLI:EU:C:2009:536.

[119] E.g. in *Durkan Holdings and Others v Office of Fair Trading* [2011] CAT 6.

[120] Decision of 21 September 2009 in case CE/4327-04.

[121] See, for example, *Sepia Logistics v OFT* [2007] CAT 13, in which the Competition Appeal Tribunal ('CAT') confirmed the approach taken by the OFT in its decision on aluminium spacing bars. The OFT did not rely on the bare presumption of control but on the fact that the ultimate parent exercised actual control through an individual director of both the parent and subsidiary and specifically through her direct involvement in the infringement (including participation in relevant meeting).

4. Assertions by parties that their parent company is a holding company only or that the subsidiary has its own management board or that the parent is not involved in the subsidiary's day-to-day management are not in themselves sufficient to rebut the presumption. A parent must adduce evidence relating to the economic and legal organisational links between it and the subsidiary.
5. Common directorships can be relied on to indicate decisive influence even if the directors are not implicated in the infringements.

As with Commission decisions, once the CMA reaches a decision, it must address that decision to one or more legal persons. The CMA's practice has been to address its decisions to each of the top companies in the undertaking and (if different) the companies in the undertaking that implemented the anticompetitive arrangements, holding them jointly and severally liable for the infringement.

## 12.3 Are Present Sanctions Efficient/Sufficient?

### 12.3.1 Largest Sanctions

The CMA's largest fines for the period 2013–2017 per infringement decision, in descending order of size, are as follows (Table 12.1).

The CMA's five highest fines imposed on individual undertakings are as follows (Table 12.2).

The courts only imposed sentences for the original cartel offence during the period 2013–2017. Note that the only other sentences for the cartel offences ever imposed were in the Marine Hose Criminal Investigation[122] (Table 12.3).

**Table 12.1** CMA's largest fines per infringement decision 2013–2017

| Case | Date of decision | Total fine | Infringement |
|---|---|---|---|
| Phenytoin sodium capsules | 7 December 2016 | GBP 89,361,423 | Abuse of dominance (excessive pricing) |
| Paroxetine | 12 February 2016 | GBP 44,990,421 | Anticompetitive agreements (pay for delay) |
| Mercedes-Benz: distribution of commercial vehicles (trucks and vans) | 27 March 2013 | GBP 2,857,369 | Anticompetitive agreements (hub and spoke) |
| Light fittings sector | 3 May 2017 | GBP 2,763,491 | Anticompetitive agreements (resale price maintenance) |
| Supply of galvanised steel tanks for water storage | 19 December 2016 | GBP 2,625,309 | Cartel |

[122]The circumstances of the Marine Hose Criminal Case were very different to the other original cartel offence cases brought, see Sect. 12.3.6 below.

**Table 12.2** CMA's largest fines per undertaking 2013–2017

| Case | Date of decision | Fine and addressee | Infringement |
|---|---|---|---|
| Phenytoin sodium capsules | 7 December 2016 | Pfizer fined GBP 84,196,998[a] | Abuse of dominance (excessive pricing) |
| Paroxetine | 12 February 2016 | GSK fined GBP 37,606,275 | Anticompetitive agreements (pay for delay) |
| | | GUK-Merck fined GBP 5,841,286 | |
| Light fittings sector | 3 May 2017 | National Lighting Company fined GBP 2,608,137 | Anticompetitive agreements (resale price maintenance) |
| Commercial catering equipment sector | 24 May 2016 | ITW Limited fined GBP 2,298,820 | Anticompetitive agreements (resale price maintenance) |

[a]Note that the CAT overturned this fine on 7 June 2018 in *Flynn Pharma Limited and Flynn Pharma Holdings Limited v Competition and Markets Authority and Pfizer Inc and Pfizer Limited v Competition and Markets Authority,* [2018] CAT 11

**Table 12.3** CMA cartel offence convictions 2013–2017

| Case | Date of sentencing | Fine and addressee | Infringement |
|---|---|---|---|
| Precast concrete drainage (1 person) | 15 September 2017 | 2 years' imprisonment, suspension for 2 years<br>6-month 6pm–6am curfew order | Cartel offence |
| Galvanized Steel Tanks (1 person) | 14 September 2015 | 6 months' imprisonment, suspension for 12 months<br>120 hours' community service | Cartel offence |

**Table 12.4** Competition director disqualifications 2013–2017

| Case | Date of disqualification | Duration and method | Infringement |
|---|---|---|---|
| Precast concrete drainage (1 person) | 15 September 2017 | DDO for 7 years | Cartel offence |
| Online sales of posters and frames | 30 November 2016 | DDU for 5 years | Anticompetitive agreement (price fixing) |

The following two director disqualifications were imposed during the period 2013–2017[123] (Table 12.4)

No fines have been imposed on individuals during the period 2013–2017. Note that the only financial penalty imposed on an individual for anticompetitive

[123]Note that on 10 April 2018, the CMA obtained DDUs from two former directors of estate agents which had previously been fined for fixing the minimum commission rate which they would offer. See https://www.gov.uk/cma-cases/residential-estate-agency-services-in-the-burnham-on-sea-area-director-disqualification (retrieved 6 June 2018).

agreements appears to have been the confiscation proceedings initiated against defendants in the Marine Hose Criminal Investigation.[124]

### 12.3.2 Does Competition Enforcement Pass the CMA's 10:1 Test?

The logical first step in determining whether or not the present sanctions are efficient or sufficient is to see whether the CMA's own targets are being met with respect to competition law enforcement. As noted in Sect. 12.2.4, the CMA has been set a monetary target: to create a 10:1 savings/cost ratio with respect to its work. This ratio relates to the whole of the CMA's work: its latest impact assessment[125] shows that the CMA exceeded its 10:1 public savings/cost ratio target by achieving benefits worth an estimated GBP 1228 million per year against a GBP 66 million budget: a benefit/cost ratio of 18.6:1 for 2014–2017.[126] However, less than 15% of this saving (GBP 138.2 million) was attributed to the CMA's competition enforcement work. This raises the question: does the CMA's competition enforcement work on its own achieve the 10:1 target?

The answer is difficult to determine from the available figures. The CMA's accounts for its latest financial year[127] show expenditure on enforcement of GBP 16.1 million.[128] However, this spending also includes consumer enforcement, meaning that the GBP 59.4 million of reported savings in consumer enforcement must also be included to create an estimated saving to the public purse of GBP 197.6 million and a 12.3:1 benefit/cost ratio. In reality, the benefit ratio is likely to be much lower, given that CMA-wide costs, such as the cost of the CMA's premises and IT services, are accounted for separately and not apportioned between the CMA's different segments.

Applying the same methodology to the 2015/16 and 2014/15 financial years yields a similar picture, illustrated in Table 12.5.

Table 12.5 shows that the CMA's competition and consumer enforcement segments did not, on its own, achieve the 10:1 benefit/cost target in financial year 2016. As mentioned in Sect. 12.3.2 above, certain costs of enforcement are only captured centrally in the CMA's accounts, meaning that the benefit/cost ratio in the table is likely to be overly generous to the CMA. Given how close financial years 2017 and 2015 are to the target, were these fixed costs to be apportioned between the CMA's departments, there is a very real possibility that competition and consumer

[124]See Sect. 12.2.7 above.

[125]For Financial Year ending 31 March 2016.

[126]Ibid, Table 1. See Sect. 12.2.4 above for detailed explanation of the CMA's objectives.

[127]Year ending 31 March 2017.

[128]See page 132 of the Accounts. Comprises the CMA's total spend on its Cartel & Criminal Group (GBP 6.9 million) and the 'enforcement' segment of the Competition, Consumer and Markets Group (GBP 9.2 million).

**Table 12.5** CMA enforcement and consumer benefit/cost ratio

| Financial year | Enforcement and consumer saving | Enforcement and consumer cost[a] | Benefit/cost ratio |
|---|---|---|---|
| 2016/2017 | GBP 197.6 million | GBP 16.1 million | 12.3:1 |
| 2015/2016 | GBP 147.7[b] | GBP 17.5 | 8.4:1 |
| 2014/2015 | GBP 144.2[c] | GBP 13.4 | 10.8:1 |

[a]Figures for Financial Years 2015/2016 and 2014/2015 taken from page 120 of the 2015/2016 Accounts (2014/2015 figures were restated in these accounts to reflect structural changes made in August 2015)
[b]Taken from Table 1 of the CMA's 2015 impact assessment
[c]Taken from Table 1 of the CMA's 2014 impact assessment

enforcement did not achieve the 10:1 benefit/cost target on its own in any of the three financial years in which the CMA has been the UK's principal competition regulator.

With respect to the CMA's criminal cartel enforcement, these cases (1) took a comparatively long amount of time to investigate, prosecute and conclude and, (2) in the case of the Galvanized Steel Tanks Criminal Investigation, related to a small market (as indicated by the size of the fine at the conclusion of the Galvanized Steel Tanks Civil Investigation). It is therefore highly unlikely that the CMA's criminal cartel enforcement activities achieve the CMA's central 10:1 benefit/cost target.

While the 10:1 target is for the whole of the CMA's activities and not for an individual segment, the fact that competition and consumer enforcement 'lags behind' the CMA as a whole in terms of savings to costs suggests that there may be room for improvement. It is worth noting that the above figures do not include the fines imposed by the CMA in each financial year: GBP 100 million in 2016/17, GBP 46 million in 2015/16 and GBP 0.7 million in 2014/15.[129] The income from fines greatly exceeds the costs of enforcement over the three years, making the net cost to the public purse of the CMA's competition and consumer enforcement segments a negative number, suggesting that the 10:1 benefit/cost target may not be appropriate here.[130]

### 12.3.3 Are the British Public Aware of Competition Law?

Given the small number of civil enforcement cases undertaken by the CMA and the very small number of criminal enforcement cases undertaken, competition law enforcement may only be effective once the wider effect of enforcement is taken into account, i.e. the deterrence and educational effect of such enforcement. Competition law sanctions can be said to be effective if they had a deterrent effect or served to educate businesses in competition law by virtue of enforcement actions being

[129]CMA 2017 Accounts, page 6.

[130]Professor Bruce Lyons writes in further detail on the appropriateness of the 10:1 target in a blog post which is available on https://competitionpolicy.wordpress.com/2016/08/05/the-dangerously-distorted-incentives-created-by-the-cmas-performance-target/ (retrieved 6 June 2018).

publicised. The CMA's latest Strategic Steer and Annual Plan both mention the importance of increasing awareness of competition law.

With regard to the educative effect of enforcement, in 2015, the CMA commissioned a survey to ascertain British businesses' understanding of competition law[131] (the 'CMA Survey'). The CMA Survey found poor awareness among businesses. Most damningly, relatively few respondents knew that the behaviours that made up the cartel offences were illegal.[132] Awareness of the penalties was also low: suggesting that the level of fines imposed has not permeated the public consciousness. The CMA Survey found that 66% of respondents answered 'don't know' when asked what the penalties were for non-compliance with competition law, although 53% of respondents did know that price fixing could lead to imprisonment.[133] Given the low level of awareness, it is difficult to see how the cartel offences can amount to an effective deterrent.

In 2014, YouGov carried out online surveys in UK, Germany, the USA and Italy[134] (the 'YouGov 2014 Survey'). The YouGov 2014 Survey recorded that 53% of British respondents knew that price fixing was illegal.[135] An earlier iteration of the survey, taken in 2007 (the 'YouGov 2007 Survey'), found that only 63% of respondents considered price fixing to be dishonest, with 21% saying that it was not dishonest.[136]

This being the case, it is questionable whether an English jury[137] could ever find that cartel behaviour would satisfy the first limb of the *Ghosh* test[138] without 'aggravating' features such as misrepresentation and deception also being present. Cartelists had previously been successfully prosecuted in such cases for conspiracy to defraud prior to the original cartel offence coming into force.[139] This suggests that the original cartel offence was unnecessary in cases where aggravating features to the cartelists' behaviour were present and unworkable in cases where aggravating features were not present.

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[131] 'UK businesses' understanding of Competition Law', prepared for the CMA by IFF Research and published on 26 March 2015.

[132] 55% of respondents thought it was permissible to agree prices with competitors to avoid losing money; 47% thought it permissible to discuss prospective bids with competitors; 40% thought it permissible to agree to market share. See CMA Survey, paragraph 4.18.

[133] CMA Survey, paragraph 4.20.

[134] See paper by Andreas Stephan 'Survey of Public Attitudes to Price Fixing in the UK, Germany, Italy and the USA', CCP Working Paper 15-8 ('**Stephan (2015)**').

[135] Stephan (2015), table 6.

[136] See paper by Andreas Stephan 'Survey of Public Attitudes to Price-Fixing and Cartel Enforcement in Britain (2008) 5 Competition Law Review 123' ('**Stephan (2008)**'), Table 14.

[137] While a majority jury is sometimes permissible for English (and Welsh) jury trials, a majority of 10 - 2 is required, suggesting that at least 83% of the jury must think that a person defending a charge of the original cartel offence was dishonest. Simple majorities are acceptable in Scottish jury trial, meaning that a representative Scottish jury *could* convict a cartelist were an original cartel offence case ever to be tried in Scotland.

[138] See Sect. 12.2.2 above.

[139] Examples are cited in *Norris v United States of America* [2008] UKHL 16 at paragraph 19.

### 12.3.4 Do the British Public Approve of How Competition Law Is Enforced?

Another way of assessing the effectiveness of the UK competition sanctions regime is to consider how closely it reflects British public opinion. The YouGov 2014 Survey shows that the British public backs fines (77% were in favour) and the availability of follow-on damages (72% were in favour) for competition infringements.[140] This suggests that the CMA's civil enforcement regime has widespread public support.

But the YouGov 2014 Survey also suggests that the British public is not supportive of imprisonment as a punishment for the cartel offences, with only 27% being reportedly in favour of imprisonment.[141] This represents an improvement on the 11% found in the YouGov 2007 Survey[142]: however, support for imprisonment for cartelists is still very much a minority view.

The YouGov 2014 Survey did report high support for price fixing being a crime (76% were in favour)[143] and that the secrecy of a cartel made it more deserving of punishment (82% agreed with this statement).[144] Additionally, high levels of British public support were reported for public naming and shaming of individuals (69%) and bans from holding senior managerial positions in business (75%).[145]

This suggests that the results that the CMA has achieved with regard to individual sanctions, i.e. director disqualification, coupled with the non-penal sentences for the cartel offence (with the exception of the special circumstances of the Marine Hose Criminal Investigation[146]), as well as the new cartel offence, with its Publication Exemption and Publication Defences, may strike the right balance with public opinion after all.

### 12.3.5 Is There Sufficient Enforcement?

Civil enforcement, rather than criminal enforcement, clearly dominates in the UK. In the 10 years from 1 January 2008, the CMA closed 52 CA98 cases. Of these, seven were abuse of dominance cases and 45 related to anticompetitive agreements.

140 Stephan (2015), Table 7.

141 Stephan (2015), Table 8.

142 Stephan (2008), section 3.4.

143 Stephan (2015), Section 7.

144 Stephan (2015), Table 11.

145 Stephan (2015), Table 8.

146 The prison sentences imposed in the Marine Hose Criminal Case were such that any lower and the defendants would have been extradited to the US to serve the remainder of the time in a US prison, as per the terms of the defendants' plea agreements with the US authorities. The result of this was that the defendants effectively requested the sentences which they received, despite their appearing excessive when set against the sentences subsequently imposed for the original cartel offence. As such, this case should be regarded as an outlier. See *R v Whittle, Allison and Brammar* [2008] EWCA Crim 2560, paragraph 27.

During the same time period, the CMA closed seven original cartel offence cases. As noted above, there have only ever been two fines for CA98 infringements imposed by Sectoral Regulators.[147]

These figures are considerably lower than comparable NCAs. During the same period, the CMA's German counterpart, the Bundeskartellamt (**BKA**) closed 90 cartel cases.[148] In 2017 alone, the BKA fined 11 individuals. The YouGov 2014 Survey suggests that German citizens have a much higher awareness of the illegality of price fixing than UK citizens (75% were reported in the YouGov 2014 Survey to be aware that price fixing was illegal).[149] However, US citizens have a lower awareness that even UK citizens (only 41% of US respondents in the YouGov 2014 Survey were aware that price fixing was illegal, compared to 53% of British respondents),[150] which, as Stephan (2015), notes is counterintuitive given the much greater use of criminal antitrust enforcement in the USA. Stephan (2015) also notes that the subject matter of some of the BKA's reported cartel probes in early 2014 (beer, sausages and trains) are likely to have caught the German public's attention and hardened their responses to cartels.

Notably, there has never been a successfully contested prosecution of the cartel offence in the United Kingdom. All those convicted of the original cartel offence pled guilty, while all those who contested the charge of the original cartel offence at trial have been found not guilty. The new cartel offence remains untested.

There have been extradition cases where British residents have been extradited from the UK to the USA to answer charges of criminal cartel activity over there. There has not, however, been any equivalent extradition *to* the UK from the USA (or anywhere else) for the cartel offence. Any extraditing third country is likely to have equivalent provisions to the UK Extradition Act 2003 limiting extradition to those circumstances where the conduct for which the suspect is being sought must be unlawful in the extraditing country.[151] As a result, whether or not a suspect is tried under UK law or under domestic law appears to matter not to liability so much as to sentencing.

The need for the CMA to do more cases and conclude those cases more swiftly is recognised by its latest Strategic Steer and Annual Plan.[152] The primacy obligation[153] is an attempt by the UK Government to ensure that the Sectoral Regulators make more use of their competition powers, recognition of the fact that these powers have been underused.

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[147] See Sect. 12.2.4 above.

[148] See the BKA's 2016 annual report and case database. The BKA uses the term 'cartel' to define any breach of the prohibition on anticompetitive agreements.

[149] Stephan (2015), Table 6.

[150] Stephan (2015), Table 6.

[151] For example at section 64(3)(b) of the Act.

[152] See Sect. 12.2.4 above.

[153] See Sect. 12.2.4 above.

### 12.3.6 Are the Right Cases Attracting the Most Serious Sanctions?

The Procedural Regulation only allows for the exchange of information between the members of the ECN for the purposes of applying the Article 101 and 102 TFEU provisions.[154] However, the receiving authority can only use the information in evidence to imprison defendants where the law of the transmitting authority foresees this in relation to violations of Article 101 or Article 102 TFEU. With respect to other sanctions such as DDOs/DDUs, (1) the national law of transmitting authority must have foreseen the same sanctions and/or (2) the evidence must have been collected in a manner that respects the same level of protection for the defendant as is provided by the national law of the receiving authority.

The result of this is that information gathered and transmitted by the Commission cannot be used as evidence to prosecute the cartel offences because (1) the CMA is barred by the Procedural Regulation from using any evidence transmitted to it by the Commission to prosecute the cartel offences and (2) the Commission's evidence gathering methods (e.g. through leniency statements) are unlikely to be regarded as sufficiently fair for the evidence gathered to be admissible in criminal proceedings.

There is no prima facie bar on the use of evidence gathered in civil proceedings being used in UK criminal proceedings, provided that the evidence has been gathered in a manner compatible with the defendants' rights of defence. Section 78 of the Police and Criminal Evidence Act 1984 ('PACE') allows the Court to refuse to admit evidence if it appears, having regard to all the circumstances (including the circumstances in which the evidence was obtained), that to admit the evidence would have such adverse effect on the fairness of the proceedings that the Court ought not to admit it. There is no general guidance on the application of this principle,[155] but it has seen its greatest use in rendering confessions inadmissible.[156] Evidence from a leniency statement (i.e. a confession), which commonly makes up the bulk of a statement of objections but which is heavily influenced by the offer of immunity or heavy discounts from fines, is therefore likely to be excluded by a court during a criminal trial. An argument could also be made for the exclusion on fairness grounds of even original documents provided as part of the leniency process in as much as the provision of these documents by the leniency applicant will, inevitably, have been done selectively so as to prove the applicant's case.

Wouter Wils points out that the exclusion of evidence transmitted to NCAs from criminal proceedings does not prevent the *intelligence* transmitted being used in criminal proceedings.[157] Indeed, there is nothing to prevent the CMA from acting on the basis of a tip-off from another competition authority and from launching a criminal investigation. However, the need to gather all the evidence a second time

[154] Article 12, Procedural Regulation.

[155] See paragraph 15-524 Archbold Criminal Pleading Evidence and Practice 2018 Ed.

[156] See paragraph 15-523 Archbold Criminal Pleading Evidence and Practice 2018 Ed.

[157] Wouter Wils 'Is Criminalization of EU Competition Law the Answer?', World Competition, Volume 28, No. 2, June 2005, pp. 117–159, para 138.

amounts to a serious burden (especially when the suspects have already been tipped off by the launch of the Commission's own investigation and may have, as a result, destroyed evidence), such that it is likely to be a severe deterrent to launching criminal proceedings.

Given that the Commission typically handles the largest and most serious competition infringements in the EEA, custodial sentencing is less likely to be available in those cases where the individual's actions caused the most harm. The UK's experience in the prosecution of the cartel offences appears to be typical: those prosecuted for the cartel offences have been employees of undertakings alleged to be part of cartels in national markets small enough not to attract the attention of the Commission. In most of these cases, the acquisition of the largest player's business on the cartelised market would be insufficient to trigger EU Merger Regulation thresholds.

The exception to the rule that all cartel offences cases have involved smaller-scale cartels is the Marine Hose Criminal Investigation.[158] The Article 101 TFEU investigation into this case was undertaken by the Commission, but several defendants were found guilty of the original cartel offence in the UK. The Marine Hose Criminal Investigation is, however, the exception that proves the rule: the evidence against the cartelists was gathered not by the Commission or the OFT but rather by the US Department of Justice, who placed under covert surveillance meetings in the USA attended by those convicted. As part of the subsequent plea agreement reached between the US authorities and the cartelists, the cartelists opted to plead guilty to the original cartel offence and serve prison sentences in the UK. Information necessary for these convictions was demonstrably not provided through the ECN.

### 12.3.7 Does the Sequential Enforcement of the Criminal and Civil Rules Cause Harm?

As noted above,[159] the CMA chooses to conduct its criminal and civil investigations sequentially, with the civil investigation only truly getting started once the criminal investigation has concluded.

The result of this is that it takes a very long time for the CMA's enforcement to finally conclude. The Galvanized Steel Tank cases took over 4 years from the criminal case being opened for the decision in the civil case to be issued. The Precast Concrete Drainage cases have been running for over 5 years (and continued to run as at 30 May 2018). Additionally, given that cartels typically go undetected for several years and are then observed for several months in order for evidence to be gathered, the time taken from an individual or undertaking suffering injury from a cartel to their being able to recover damages for that injury can easily be over a decade.

[158] See *R v Whittle, Allison and Brammar* [2008] EWCA Crim 2560.

[159] See Sect. 12.2.3 above.

Like the Commission, the CMA does not need to (and does not as a matter of course) determine the level of damages suffered by individual claimants in order to convict individuals, fine undertakings or disqualify directors. A follow-on damages claimant must do this from scratch. However, the passage of time in a follow-on damages claim that attaches to a civil cartel decision, which itself follows on from a cartel offence conviction, can be enormous.

For example, the decision in the Galvanized Steel Tank Civil Case (which a claimant would need to read in order to establish whether or not they had a claim) was published on 29 March 2017. The decision states that the cartel behaviour being punished commenced on 29 April 2005, 11 years and 11 months to the day before the publication of the decision establishing this fact. The majority of potential claimants are unlikely to keep records going back this far, meaning that they are unlikely to be able to make a claim for purchases made for the duration of the cartel.

### 12.3.8 Can an Act Fall Foul of the Cartel Offence but Not Breach Civil Competition Law?

Disposing of the criminal case prior to the civil case also raises an issue in relation to Article 101(3) and its CA98 equivalent[160] (together referred to as 'Individual Exemption'), given that even the 'hardcore' behaviours described in the cartel offences could theoretically benefit from exemption[161] under the civil prohibition while simultaneously amounting to an offence.

With respect to the original cartel offence, it is difficult to see how an arrangement fulfilling the criteria for Individual Exemption could be dishonest, except in contrived circumstances where an individual did 'the right thing for the wrong reasons'.

With respect to the new cartel offence, however, there is the possibility that a defendant could enter into an agreement that not only qualified for Individual Exemption but also fulfilled all the criteria necessary for the new cartel offence. This is because the defences and exceptions introduced to the new cartel offence in order to make up for the lack of a dishonesty requirement are not a natural fit with Individual Exemption (with the possible exception of the defendant having taken legal advice).

For example, a person could enter into a technology transfer agreement that restricted passive sales into an exclusive territory or to an exclusive customer group reserved for the licensor. Such an arrangement would potentially be block exempted by virtue of Article 4(1)(c)(i) or Article 4(2)(b)(i) of the Technology Transfer Block Exemption[162] and, as such, is not a breach of either the Chapter I or Article 101 Prohibitions. The exemption recognises the efficiencies resulting from such a restriction, which is a form of market sharing (i.e. a behaviour covered by the new cartel offence).

[160]Section 9 CA98 (as amended).

[161]ECJ, case T-17/93 *Matra Hachette v Commission,* ECLI:EU:T:1994:89, pt 85.

[162]Commission Regulation 316/2014.

The arrangement, contained within a commercially sensitive agreement between the licensor and the licensee, is unlikely to have been disclosed to the customers or the CMA (meaning that the Publication Exemptions and Publication Defences are not available), and the defendant may enter into so many arrangements of this nature that she may not have sought legal advice (meaning that the Legal Advice Defence is unavailable). Given that the behaviour described is specifically authorised by the Technology Transfer Block Exemption, the example cannot be said to be contrived.

In such circumstances, a prosecution would likely fail the public interest test[163]; however, it is clearly not ideal for a potential defendant to be protected from personal liability by mere prosecutorial discretion for performing an act that attracts no consequences for her employer. The dual-track approach also means that Individual Exemption arguments are unlikely to have been considered in detail by the CMA at the time that the decision to prosecute is made.[164]

## 12.4 The Way Forward, Need for Change?

### 12.4.1 The Cartel Offence Should Be Reserved for Only the Most Egregious Cases

As noted above, enforcement of the cartel offences has had several flaws:

1. Very few cases are pursued.
2. Enforcement is highly unlikely to fulfil the CMA's own 10:1 public benefit target.
3. Public awareness of the cartel offences is low.
4. Public support for locking up cartelists is low.
5. The nature of competition investigations means that the cartel offences are only pursued for smaller (i.e. arguably less serious) cartels.
6. The time taken for civil and criminal cases to conclude is unlikely to be in the interests of justice and is particularly prejudicial to would-be follow-on claimants.
7. It is possible for behaviour to fulfil the criteria of the new cartel offence but not the Chapter I/Article 101 Prohibitions as a result of the former not taking into account the possibility of Individual Exemption.

[163] Any decision to charge a suspect with either cartel offence must follow the Code for Crown Prosecutors, which sets out an evidential and a public interest test, both of which must be met.

[164] Note that in the CMA's investigation into cleanroom laundry services and products in Case 50283, the defendants argued unsuccessfully that the Technology Transfer Block Exemption exempted their arrangement (see paragraph 5.218 of the decision). The CMA's decision rejected the application of the Technology Transfer Block Exemption on a number of grounds but only after what appears to have been a detailed review, which considered (among other things) market shares, the know-how (or lack of it) transferred between the parties, their competitive situation at the time of the alleged transfer and the changes to the arrangement which had taken place. Were these factors irrelevant to what the CMA was trying to prove, it seems unlikely that such a detailed review would have been carried out.

With regard to items 3 and 4 above, low public awareness and support are likely to have made the original cartel offence a dead letter and in part explain the low number of cases brought and even lower number of convictions. There does not appear to be any point in bringing further original cartel offence cases.

With regard to the new cartel offence, there may still be a need to prosecute in cases where an individual has gained so much and entered into price-fixing, market-sharing or bid-rigging agreements so egregious that an example has to be made. In such cases, aggravating factors are likely to be present such that the cartelists' activities may also amount to fraud[165]; however, it would still be useful to have a specific offence to spell out what the cartelist had done wrong. It is likely to be only very occasionally that the public interest in bringing a prosecution is sufficient to outweigh the factors suggesting that no prosecution should be brought.

### 12.4.2 Professional Sanctions (Including Director Disqualification) Should Be Sought in All Cases

A DDO or DDU amounts to a black mark against the individual and may have a similar effect as a censure from a professional body where that individual is not a member.[166] All that needs to be shown is that (a) the individual was a director of a company that breached CA98 and (b) the director's behaviour makes her 'unfit' to be concerned in the management of a company.[167] DDU proceedings are relatively simple (compared to cartel offence proceedings) and have historically been entered into following the conclusion of a civil CA98 case, when there is little prospect of further document disclosure to derail the prosecution process should a prosecution to impose a DDO be required. In each case, the individuals would only have entered into the DDU if there were the credible threat of the CMA going to court and obtaining a DDO.

DDO and DDUs are, currently, only available for persons who are currently company directors.[168] As a result, whether an individual personally involved in a breach of competition law might be disqualified as a director depends on how the undertaking that employs her is structured. If the undertaking contains relatively few legal entities, or if the undertaking does not include much of its management on the board of directors, then that company's employees are less exposed to DDOs.

There does not seem to be any compelling reason why a DDO or a DDU should not be sought against someone who has not yet been made a director if her conduct makes her unfit to be involved in the management of a company. The threat of a ceiling being placed on an ambitious staff member's career is likely to be as much

[165] See Sect. 12.3.3 above.

[166] As noted in Sect. 12.2.7 above, UK regulatory bodies can and do take independent action when a person who is regulated by them is involved in a breach of competition law.

[167] See Sect. 12.2.7 above.

[168] See Sect. 12.2.7 above.

(if not more) of a deterrent to that of the premature ending of a more senior employee's career. Research conducted by the OFT in 2010 suggested that reputational damage was an even more powerful driver of compliance than the threat of fines[169] and that the threat of DDOs was a useful driver of compliance.[170] Given the popularity[171] of naming and shaming individual cartelists, the British public is also likely to be in favour of a non-custodial penalty (if warranted) for the individuals involved in an infringement at the conclusion of proceedings.

### 12.4.3 Recidivism of Individuals

This Reporter is unaware of any instance where an individual who, having implemented one competition law infringement that was fined by a competition authority, subsequently went on to commit another. As a result, additional punishment at the individual level for recidivism does not appear to be needed.

Further, defendants of the cartel offences have been senior employees (a pattern that is replicated in criminal cartel enforcement worldwide). The CMA's investigations into the cartel offences have typically taken several years and encompassed several years' worth of infringing activity. Unless the CMA's prosecution strategy changes, there are unlikely to be many employees who would be usefully deterred by an uplift in sentencing due to recidivism, given that, by the time their sentencing for the cartel offence has concluded, they are unlikely to have long before reaching retirement age in which to become involved in a second criminal cartel, which is then discovered by the authorities. A DDO/DDU for a period of several years[172] also makes it unlikely that a senior employee will work in an equivalent position again after being disqualified the first time.

Preventing recidivism would, therefore, only seem to become an issue in the event the CMA changed tactics and started prosecuting the cartel offence against more junior employees (e.g. sales team members implementing a cartel). Pursuing director disqualification against these individuals would be one way of doing this.

[169] Drivers of Compliance and Non-compliance with Competition Law, OFT 1227, May 2010, paragraph 4.1.6.

[170] Drivers of Compliance and Non-compliance with Competition Law, OFT 1227, May 2010, paragraph 4.1.7.

[171] See Sect. 12.3.4 above.

[172] Daniel Trodd entered into a disqualification undertaking not to act as a director for 5 years following the CMA's decision in Case 50233 ('Online Posters and Frames Investigation'), Barry Kenneth Cooper was disqualified as a director for 7 years following his conviction of the original cartel offence at the conclusion of the Precast Concrete Drainage Criminal Investigation.

### 12.4.4 Monitoring Changes in Awareness as a Result of Enforcement Activity

The CMA Survey was a one-off: it was not based on a previous survey, nor do there appear to be plans to do it again. The results are a snapshot of UK businesses' awareness of competition law, but they do not show whether the understanding of competition law is getting better or worse with time. Other surveys into British attitudes to competition law infringements have been undertaken,[173] but these are not directly comparable. While the YouGov 2007 Survey and YouGov 2014 Survey show changes to public attitudes in the UK to price fixing hardening over time, these changes are likely to have been driven by the 2007 economic crisis and the attitudes towards 'corrupt' business people than by enforcement action. Crucially, these surveys do not distinguish between business sectors, making them of limited use in determining whether CMA enforcement really does drive compliance.

A limited annual or biennial follow-up to the CMA Survey would therefore be useful in order to determine the impact (if any) of competition law enforcement in a given region or industry on the awareness of competition law in that region or industry. The CMA would then be able to make more informed decisions as to the kind of cases to pursue in order to achieve the greatest resulting awareness and deterrence.

### 12.4.5 Failure to Prevent Breaches of Competition Law

The Bribery Act 2010 ('BA10') was the first root and branch reform of UK bribery law in a century. BA10 introduced an offence of 'failure to prevent bribery',[174] under which a commercial organisation is guilty of an offence if a person associated with it bribes a third person on its behalf to obtain or retain business or an advantage in the conduct of business. It is, however, a defence for the defendant commercial organisation to show that it had adequate procedures designed to prevent persons associated with it from undertaking such conduct.[175]

Given that the liability of the undertaking for breaches of the competition law prohibitions does not depend on it giving its consent to the anticompetitive conduct being conducted,[176] there does not appear to be any real need to create a new head of liability for a failure to prevent a breach of competition law. However, additional incentives for undertakings to demonstrate that they had adequate procedures designed to prevent breaches of competition law prior to the breach of competition

[173] The survey reported in Stephan (2008); the YouGov 2014 Survey; The impact of competition interventions on compliance and deterrence (OFT 1391, December 2011).

[174] Section 7 BA10.

[175] Section 7(2) BA10.

[176] ECJ, case C-542/14, *VM Remonts*, ECLI:EU:C:2016:578.

law may cause greater compliance. The current compliance discount offered by the CMA has only been applied to compliance programmes imposed *after* the infringement took place[177]; however, the CMA's Fining Guidelines are drafted in a sufficiently broad way to allow the CMA to take pre-existing compliance programmes into account.[178] Furthermore, with respect to the new cartel offence, the prospects of success for the Publication Exemption, Publication Defences and Legal Advice Defence can be greatly reduced in cases where a defendant has signed a competition compliance policy outlining the behaviours that are prohibited, thus demonstrating that any violations of this policy are highly likely to have been concealed from third parties. It makes sense in these circumstances to shift liability from the undertaking to the individual.

### 12.4.6 An EU-Wide Cartel Offence?

One way of tackling the enforcement gap of individual criminal liability in Commission competition cases would be to create an EU-wide cartel offence. This offence could be prosecuted by National Competition Authorities (**NCAs**) or the Commission itself.

The competition rules are almost unique within EU law in that they allow the Commission to take punitive action against entities other than the Member State signatories to the EU treaties. Where EU law has been used to create criminal offences, offences have not been created directly. Rather, Member States have been directed to create criminal offences themselves.[179]

Criminal cartel enforcement powers were not popular with NCAs that responded to the Commission's consultation on empowering the national competition authorities to be more effective enforcers, which concluded on 12 February 2016. The Slovak competition authority noted the higher standard of proof required in criminal cases,[180] while the Portuguese competition authority doubted that criminal law was suitable in competition cases.[181] Even the Irish competition authority, which arguably has had more success than any other EU NCAs in prosecuting individuals for competition offences, was not in favour, noting as follows:

[177] See Sect. 12.2.6 above.

[178] Notably, on 20 April 2018, the Italian Competition Authority launched a consultation on its draft competition compliance guidelines, which explicitly set out separate discounts for compliance programmes in place before an infringement takes place and compliance programmes in place after an infringement takes place.

[179] See for example Council Framework Decision 2002/475/JHA of 13 June 2002 on combating terrorism, which directed Member States to criminalise certain actions related to terrorism.

[180] Antimonopoly Office of the Slovak Republic response.

[181] Portuguese Competition Authority response.

> Traditional criminal offences are not the most effective or efficient approach to ensuring compliance. The evidentiary requirements, the complex economic analysis involved in many cases and the criminal standard of proof are such that criminal prosecution is neither practical nor appropriate in most cases. With the exception of the simplest of hard core cartel offences (which may be more readily understood by a jury) NCAs will not be likely to adopt this approach and most undertakings will not treat these offences as a realistic deterrent. The higher standard of proof impacts the extent of the investigation to gather sufficient evidence, thereby impacting the time and resources required to present a case for prosecution. Given the competing cases, pending hearing the relevant prosecuting authority (if not the NCA) may prioritise enforcement against other more traditional (non-white collar crime) serious crimes.[182]

There are also serious political difficulties in introducing such an offence. The EU is not itself a state. It has no seat at the UN General Assembly, and (more importantly) it has no ability to fine or imprison individuals (the European Court of Justice does not try cases against individuals, and there is no 'Euro-jail' in which to incarcerate defendants). The most widely accepted definition of the state, the body with a monopoly of legitimate physical violence in a given territory,[183] precludes the existence of a different entity exercising physical violence against the individual (in the form of a deprivation of liberty) within the same territory. The EU's inability to use physical force is acknowledged in the manner in which the Commission conducts competition investigations. Dawn raids are typically carried out with the assistance of NCAs, which are able to break locks if necessary and arrest non-cooperative employees for obstructing investigations if needed. Where the Commission has been denied entry to premises, it has called local police.

It is difficult to see how a Commission-enforced EU-wide competition law criminal offence could exist without raising much wider and more fundamental questions about what the EU is and (more controversially) what its Member States have become as a result of their membership.

Less controversially, the Commission could factor in criminal cartel prosecutions into its investigations: for example, through having NCAs gather evidence in a manner consistent with domestic criminal law and amending the Procedural Regulation so as to allow for the use of transmitted information in the prosecution of criminal competition offences. This would mean that NCAs would, potentially, be able to rely on the evidence gathered in the largest, more far-reaching cartel investigations carried out in their territories in prosecuting criminal cartel behaviour.

### 12.4.7 Brexit

At the time of writing, the UK was due to leave the EU and, subject to final agreement, enter into a standstill arrangement (during which it will behave and be treated under EU law as if it were still a Member State), envisaged to conclude on

[182] Competition and Consumer Protection Commission response.

[183] Set out most famously in Max Weber's 1919 essay *Politics as a Vocation*.

31 December 2020. At the time of writing, the UKCN members' relationship with the Commission and the NCAs of the remaining Member States from 1 January 2021 was anyone's guess; however, there are likely to be memoranda of understanding in place between the UKCN and the ECN regarding the gathering and exchange of information, as well as the provision of mutual legal assistance.

The UK's upcoming departure presents the opportunity for the CMA, as head of the UKCN, to 'take back control' of competition enforcement in the UK. Evidence gathered by the CMA in the UK for the purposes of providing mutual legal assistance in a Commission cartel case can be gathered in a manner consistent with PACE, making it usable in criminal proceedings. Conversely, any memorandum of understanding between the UKCN and ECN could reduce the restriction on the use of evidence in proceedings other than the enforcement of Articles 101 and 102 TFEU and their domestic equivalents so as to include the cartel offences.

# Ukraine

# 13

Serhiy Shershun and Anna Garbar

## 13.1 Introduction

Applicable law seeks to protect competition on a market as a means of enhancing consumer welfare and of ensuring an efficient allocation of resources. In order to be successful, therefore, competition authorities should be adequately equipped and have at their disposal all necessary enforcement tools. Any business irrespectively of its legal status, size, and sector has to be aware of competition law and of the consequences of its violation. Thus, it can not only meet its obligations (and so to avoid the fines) but also assert its own rights and protect its position in the market. That is why this report will demonstrate the current system of competition rules in Ukraine, the sanctions in the case of violation of competition law, and the improvements that need to be done in these matters.

The first part of the report will consider the legal nature of liability in competition law, the place of criminal liability, and the types of sanctions, such as financial and other types of sanctions.

Then the report will evaluate the methodology for calculating fines. By analyzing this aspect, the report will consider the principles for calculating the fines that should be guided by the AMCU: proportionality, nondiscrimination, and reasonableness, as well as the role of the AMCU as an independent state body whose purpose is to ensure competition on the markets.

By taking into account different cases in competition law, this contribution will analyze the liability in competition law and a leniency program as a legal instrument for fighting cartels and for encouraging the disclosure of cartels by releasing from liability in case of voluntary disclosure of a cartel conspiracy. In addition, it will

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_13

demonstrate that the parent company is liable for the anticompetitive behavior of its subsidiary, if such a subsidiary does not determine its market practice independently, and that managers are not liable in the current system of competition rules in Ukraine.

Finally, the contribution will illustrate the concept of a compliance program as a mechanism for reducing fines and the importance of applying an individual competition compliance program, taking into account the size of the company and the specific market in which the company operates.

## 13.2 General Rules

Effective competition policy undoubtedly requires proper enforcement, provided with the appropriate sanctions.

In Ukraine, the Antimonopoly Committee of Ukraine (hereinafter the "AMCU") ensures state control over compliance with legislation on the protection of economic competition. The Law of Ukraine "On the Antimonopoly Committee of Ukraine" defines the functions and powers of the AMCU and specifies its special status.

The issue of the application of sanctions for violating competition law is defined in the following legal acts: the Law "On Protection of Economic Competition" (hereinafter the "Law"), the Law "On Protection Against Unfair Competition," the Code on Administrative Offenses, and the Law "On State Aid."

The Law establishes the procedure for the application of sanctions, the subjects of liability, and the size of such sanctions. The Law "On Protection Against Unfair Competition" provides the responsibility for the actions defined as unfair competition, such as violation of trade customs on the market.

On 9 August 2016, the AMCU approved new Recommendation Clarifications on the application of the provisions of the second, fifth, and sixth paragraphs of Article 52 of the Law on Protection of Economic Competition, parts 1 and 2 of Article 21 of the Law on Protection Against Unfair Competition (hereinafter the "Recommendation Clarifications"). The Recommendation Clarifications define the approaches of the AMCU in determining the size of fines for competition infringements in order to increase transparency.

Regarding the Law on State Aid, it should be noted that state aid is normally a public law issue in Ukraine, but private law may also be involved when supporting measures provided via civil law instruments (e.g., guarantees, capital injections, loans) or for private undertakings authorized to manage public resources. Structurally, the Ukrainian state aid-related rules are fragmented and incomplete. They are scattered around various legal acts, from the commercial, budget, and tax codes to sectoral laws tailored for a particular industry (e.g., the Law on State Support of Agriculture, the Law on State Support of Research and Development Institutes).

The AMCU is the body responsible for state aid control, in particular to declare incompatible aid and order the return of illegitimate state aid found incompatible.

It should be noted that Ukrainian legislation provides for the administrative liability of officials and other employees of business entities or governmental authorities. Administrative sanctions are applied in court according to reports drawn up by the AMCU, based on the Code of Administrative Offenses. At the same time, today there is a conflict between laws because the list and content of violations specified in the Law are not consistent with the definition of violations of competition law in the Code of Ukraine on Administrative Offenses. In essence, the Code of Administrative Offenses is outdated in this regard and needs to be updated.

Examining the legal nature of criminal liability in competition law, it should be noted that there is no criminal liability for violating competition laws in Ukrainian jurisdiction.

At the same time, Ukraine has experience in applying criminal liability for the violation of competition rules. Indeed, Article 228 of the Criminal Code of Ukraine used to provide criminal liability for coercion of anticompetitive concerted actions until 2011. However, the provision was deleted because on 13 December 2011, the Law of Ukraine "On Amendment of Some Legal Acts of Ukraine" (Regarding Humanization of Liability for Offences in the Sphere of Business) was adopted. This law aimed to improve the legal climate for business in Ukraine by removing certain business practices from the purview of criminal law and, accordingly, law-enforcement authorities.

Moreover, there were other attempts to establish criminal responsibility for certain types of anticompetitive concerted actions. It follows that in 1994, the Criminal Code of Ukraine (in the redaction of the year 1960), which was in force at that time, provided for criminal liability for "agreement on the establishment (maintenance) of monopoly prices (tariffs), discounts, surcharges, margins for the purpose of eliminating competition between business entities." The meaning of this provision was also reflected in the first revision of the new Criminal Code of Ukraine in 2001, which provided for criminal liability for agreement "on the artificial increase or maintenance of monopolistic prices (tariffs), discounts, surcharges (surcharges), mark-ups to eliminate competition between business entities in spite of the requirements of the antitrust law,"[1] but it did not last long.

Analysis of the practice of criminal liability showed that several investigations into officials were not successful before the courts due to the complexity of proofs, with the result that nobody was punished.

In our opinion, considering international practice, the application of criminal liability does not solve the issue of detecting and terminating competition law infringements. That is why it should be noted that criminal liability is not a panacea for termination of violations of competition rules, and in addition, there is a risk of unjustified prosecution in periods of political instability in the country.

Nowadays, Ukraine has a developed system of competition legislation, which corresponds to most European approaches in the field. At the same time, with the development of information technologies and industries, there is a need to update competition law, but this matter will be detailed in the following sections.

[1]The Criminal Code of Ukraine 2001.

## 13.3 Sanction in Competition Law

### 13.3.1 Goals

Competition law does not directly determine in its acts the purpose of applying sanctions for violations.

At the same time, the main purpose of sanctions is precisely the need to ensure that the defendant is punished for violation of competition law.

Furthermore, the goal of fines is to prevent other market participants from committing similar violations. This means that when determining the level of responsibility for a violation, it is necessary to ensure the deterrence of new violations by both the infringer and other companies. In other words, companies should recognize the inevitability of sanctions for violation of competition rules combined with its adequacy, which will increase their incentives to comply with competition law.

By complying with competition law, it should be noted that the liability for infringements has a repressive nature rather than a compensatory character typical for civil liability. It follows that the purpose of such a liability as "compensation" is not inherent for competition law.

At the same time, the AMCU claims that the application of fines should not lead to the deprivation of the companies' possibility to compete or to the impossibility of meeting consumer demand. Additionally, such liability should not follow the aim of removing the company from the market because of the significant size of the fine.

To sum up, by establishing the liability for violation of competition rules, the state seeks to achieve this main goal: ensuring proper legal order.

### 13.3.2 Types of Fines

Examining the types of sanctions, we see both financial and other types of sanctions in the current system of sanctions for violation of competition law. The financial sanctions include fines, compensation for damages caused by the violation of competition law, collection of illegally obtained profits.

At the same time, it is necessary to note that the Law does not provide for liability for the receipt of illegal profits due to the violation of competition law. However, the Law establishes that if the legal entity received illegitimate profits that exceed 10% of gross income, the fine may be significantly higher. However, the mentioned fine should not exceed the size of the illegally obtained profits by more than three times.

In fact, fine is the main type of liability for legal entities committing anticompetitive violations.

It should be mentioned that the application of fines are defined in Articles 50 and 52 of the Law, which also determine their amount and method of calculation. The AMCU has the power to fine on its own, without the need for a court decision.

Furthermore, the Law defines the fines not in strictly fixed amounts but limits them by 1%, 5%, or 10% of the company's gross income for the past year, depending on the type of violation and the specific circumstances of the case.

To determine the size of a fine, the AMCU takes into account the following:

(1) the significance of the violation's impact on the competition level in the relevant markets;
(2) the amount of illegally obtained profits as a result of the abuse of a dominant position;
(3) the amount of losses incurred by counterparties;
(4) the repetition and duration of the violation;
(5) the behavior of the company after revealing the signs of violation;
(6) the behavior of the defendant during the investigation, his financial position.

In our view, the sanctions in the form of a fine can be divided into groups, depending on the level of risk and the amount of fines that may be applied by the AMCU.

The first group of fines is the highest sanctions for anticompetitive concerted actions, abuse of a dominant position and nonfulfillment of the AMCU's decisions.

According to Article 52 of the Law,[2] the fine for the abovementioned actions may reach 10% of the company's income (turnover) from the sale of products (goods, works, or services) for the last reporting year. In addition, the Law establishes the basis on which these percentages are charged, not only proceeds from the part of the company's activity within the limits of which the violation took place but also proceeds from all other activities of the entity. The approaches to calculating the fines will be disclosed in the following sections.

The second group of sanctions is fines of up to 5% of the income of the company specific to such violations as the implementation of mergers without obtaining the appropriate permission. There is the fine of up to 5% of the company's income for violation of the Law of Ukraine "On Protection Against Unfair Competition."

Looking at the third group of sanctions, the Law provides for a fine of 1% of income for the violation of[3]:

(1) failure to submit information to the AMCU;
(2) submission of incomplete information to the AMCU;
(3) submission of inaccurate information to the AMCU;
(4) creation of obstacles for the AMCU when carrying out inspections, seizure or imposition of an attachment to property, documents, items, or other information carriers;
(5) providing recommendations to legal entities, associations, authorities, government bodies, administrative and management bodies, which lead to infringements of competition law.

[2] The Law of Ukraine "On Protection of Economic Competition", Article 52.

[3] The Law of Ukraine "On Protection of Economic Competition", Article 52.

Thus, Ukrainian legislation provides an exceptional list of actions for which the fines for the violation of competition law are applied.

### 13.3.3 Compensation for Damages

Ukrainian competition law allows for requesting compensation for damages caused by violations of competition rules through the courts. In order to determine the possibility of receiving compensation for damages, the court takes into account the aggravating and mitigating circumstances of the case and the solvency of the violator.

In addition, it should be noted that if the damage was caused because of cartel, abuse of a dominant position, the implementation of concerted actions, concentration without the AMCU's approval, and some other very specific violations, the damage is compensated by the violator in double.[4]

In practice, lawyers take a skeptical approach to the application of the abovementioned provision. Sometimes victims neglect the opportunity for compensation for damages, and as a result, the chance for protection against abuses of monopolists is reduced.

The most recent case regarding this issue is a positive example of activation of the process of appeal to the courts to compensate for damages on the basis of an AMCU decision.

In case number 910/4425/16[5] from July 3, 2018, the Supreme Court of Ukraine upheld the legality and validity of the ruling of the Commercial Court of the Appellate Instance on the full satisfaction of the claims of Agricultural Enterprise Nibulon LLC in the amount of over UAH 120 million (approximately EUR 3,930,273).

Considering this case, it should be mentioned that the compensation for damages is double the amount of damage as decided by the court. The ruling was that the defendant was obliged to compensate more than the value of the damage actually caused.

Therefore, in our opinion, the practice of compensation for damages in Ukraine has strong prospects, even despite the difficulty of calculating and confirming such losses.

[4]The Law of Ukraine "On Protection of Economic Competition", Article 55.

[5]Available at the following link http://reyestr.court.gov.ua/Review/75081972. Accessed 8 October 2018.

### 13.3.4 Other Types of Sanctions

In the cases of abuse of a dominant position on the market by a company, the AMCU has the right to make a structural separation of the company (divestment). The reorganization of the company subject to compulsory division may be carried out in its decision only if such a reorganization eliminates the dominant position of this company on the market.

When analyzing the examples of compulsory division, it appears that this kind of sanction is used as an exceptional measure by domestic and foreign competition authorities.

An example of compulsory division is the division of Donmolprom CJSC, which had an 84.6% share of the dairy market. As a result, such a division was carried out by the AMCU in 1996, whereby the structure of the company was separated into 18 structural divisions, on the basis of which joint-stock companies were created.

The next type of sanctions is closely linked to bid rigging. In fact, the AMCU finds a significant number of acts of collusion during public procurement.

In our view, the implementation of sanctions in the form of significant fines for such cartels was not a sufficient deterrent for the companies (participants of tenders). In this regard, the Law of Ukraine “On Public Procurement” has introduced a prohibition on companies that were liable for anticompetitive concerted actions to take part in tenders for 3 years.

As a result, the 3-year ban has been a very effective mechanism to resisting collusion during tenders. Indeed, for some companies, the impossibility of participating in tenders for 3 years actually means their exit from the market, loss of customers, and, as a consequence, termination of activity.

On the other hand, it is not 100% protection from unfair participants of tenders due to the fact that some companies resort to deliberate liquidation in order to avoid liability and create new companies for further participation in tenders.

### 13.3.5 Criminal Law Sanctions of Companies

According to the practice of European and foreign countries, it has been possible for a long time to apply criminal measures to companies.

In Ukraine, the subject of criminal responsibility is the individual. At the same time, there is a “quasi-criminal” (administrative and criminal) liability for companies. The main feature of this approach is that the law does not recognize companies as subjects of a crime, but in a number of cases, provided by separate regulations, they may be subject to various criminal sanctions.

As a rule, Ukrainian legislation does not contain the term “criminal liability” for companies, but instead the term “criminal law measures against legal entities” has been employed, so legislators could avoid amending the Criminal Code’s general provisions regarding criminal liability.

At the same time, companies may be subject to criminal law measures should they commit offenses such as legalizing income received from crime, using funds obtained from illegal drug trafficking, and bribing an official of a company or person providing a public service.

The complexity of this situation stems from the fact that the court examines evidence according to its internal convictions and is responsible for deciding whether an authorized person has committed a crime on behalf of and in the interests of the legal entity itself.

Analysis of criminal legislation gives the opportunity to contend that proceedings against a company is carried out within the framework of the criminal proceedings concerning the authorized persons of the company.

In the case of a conviction of an authorized person of a company, the decision regarding the application of criminal law measures to the company should be indicated in the operative part of the sentence against the convicted individual, in accordance with the provisions of Article 374 CPC of Ukraine.[6]

By analyzing the advantages and disadvantages of the legal nature of criminal law measures, we can consider progressive steps in this matter. However, this matter still requires significant changes and revisions, and then the possibility of introducing criminal liability in antitrust can be considered taking into account the experience of foreign countries.

## 13.4 Calculation of Sanctions

### 13.4.1 Methodology for Calculating

According to the Law, there are the three sizes of fines for violation of competition law: up to 1%, 5%, and 10%.[7] In this regard, a direct rule determines the maximum fine for a violation. For example, the fine for abuse of a dominant position and anticompetitive concerted actions is up to 10% of the company's income for the previous year.

At the request of businesses and the public, the AMCU developed the Recommendation Clarifications for calculating fines for violating competition law. This document contains a clear mechanism for calculating the fines that may be imposed in the event of violation.

Thus, the document provides a two-phase calculation of a fine: definition of the basic amount of the fine and its adjustment, taking into account the aggravating and mitigating circumstances of the case.

In the past, the AMCU would calculate a fine based on the income of the company for the last fiscal year without considering the level of the negative impact of the particular violation on the relevant market.

With this Recommendation Clarifications, the fine now relates to the income received (could have received) in connection with the violation. As a result, this approach should significantly reduce the range of fines. It is important to note that the provisions of the Law define the basis for determining the size of a fine: the

[6]The Criminal Code of Ukraine, Article 374.

[7]The Law of Ukraine "On Protection of Economic Competition", Article 52.

income of the entity from the sale of products (goods, works, or services) for the last reporting year preceding the year in which the fine is imposed.

When analyzing the Recommendation Clarifications, it is essential to pay attention to the principles for calculating fines used as guidance by the AMCU: proportionality, non-discrimination and reasonableness.

"Proportionality" means the balance of the amount of sanctions, which are aimed not only at punishment for the committed violations but also at deterring the committing or continuing of such violations; "non-discriminatory" means the inadmissibility of different approaches to the companies in similar cases; "reasonable" means that the amount of the fine must be determined taking into account the significance of the actual circumstances of each case in order to ensure a fair balance between public interests and the rights and freedoms of the parties to the relationship.[8]

At the same time, the Recommendation Clarifications is an internal document of the AMCU, and it has a recommendatory nature. That is why the only guideline for companies remains the limits of the maximum fine provided for by the Law.

In our view, it is necessary to make the Recommendation Clarifications a mandatory official legal act whose use is compulsory when determining the fines for violation of competition law.

### 13.4.2 Role of the AMCU in Calculating Sanctions

The AMCU acts as an independent state authority whose purpose is to ensure fair market competition. Therefore, the AMCU acts independently when calculating the fines for violations of competition law and does not take into account sanctions imposed by other state bodies.

It should be mentioned that the determination of the amount of a fine is a discretionary power of the AMCU. At the same time, the application of AMCU fines is closely linked with the issue of preventing two times liability of companies by the AMCU and other state bodies for the same actions.

Article 15 of the Law of Ukraine "On Protection Against Unfair Competition" provides "the achievement of unlawful competitive advantages is to obtain such advantages in relation to another company by violating legislation, which is confirmed by a decision of a public authority or a body of local self-government, granted the relevant competence."[9]

Following that rule, the AMCU makes decisions regarding the achievement of unlawful advantages based on the conclusion, in particular, of the state body for consumer protection about the violation of the rights of advertising, such as the placement of false information about the consumer properties of products.

[8] Recommendation clarifications from August 09, 2016 No. 39-pp On the application of the provisions of the second, fifth and sixth indents of Article 52 of the Law of Ukraine On the Protection of Economic Competition, parts 1 and 2 of Article 21 of the Law of Ukraine On Protection against Unfair concentrations.

[9] The Law of Ukraine "On Protection against Unfair Competition", Article 15.

Concerning this matter, it should be noted that there is a two times responsibility for one violation committed by the company. At one time, there was a discussion about the need to exclude Article 15 of the Law of Ukraine "On Protection from Unfair Competition" because it was in conflict with the principle of non-admissibility of the use of two times responsibility. Today, the practice of the AMCU in this part has been minimized.

## 13.5 Enforcement

### 13.5.1 Dominant Liability

This report has determined that the main type of liability for the violation of competition rules is administrative fine. The specificity of the application of administrative sanctions—a fine for violating competition—is that the Law directly establishes a legal basis for the application of administrative sanctions.

However, with the adoption of the Commercial Code of Ukraine, the sanctions applied by the AMCU can be attributed to the general category of administrative-commercial sanctions, and in addition, Article 239 of the Commercial Code provides an administrative-commercial fine, among other types of the sanctions.[10]

Thus, in Ukraine, there is a specific type of liability, which is called an administrative-commercial liability. Moreover, this specific type of liability includes unusual remedy provided in Article 53 of the Law, such as the compulsory division of the company that abuses its dominant position in the market.[11]

### 13.5.2 Leniency Program

Considering the experience of competition agencies of the world, it has been recognized that a leniency program may be an effective legal instrument for combating cartels and for encouraging the disclosure of cartels by releasing from liability in case of voluntary disclosure of a cartel conspiracy.

At the moment, a leniency program in Ukraine is provided in Article 6 of the Law and is further detailed in the Regulation of the AMCU on the Procedure for Release from Liability No. 399-p of 2012. However, there are no grounds to claim that such a leniency program is effective in Ukraine.

According to the Law, full immunity from administrative fines is available, subject to the following conditions[12]:

1. The applicant is the first to notify the AMCU about an anticompetitive concerted practice.

[10] The Commercial Code of Ukraine, Article 239.

[11] The Law of Ukraine "On Protection of Economic Competition", Article 53.

[12] The Law of Ukraine "On Protection of Economic Competition", Article 6.

2. The notification is voluntary and is filed before the AMCU issues a statement of objection in the relevant investigation.
3. The provided information is material for revealing the concerted practice, essentially meaning that it is sufficient for the AMCU to find an infringement.
4. The applicant provides all available evidence and/or information concerning the violation.
5. The applicant takes effective measures to cease its participation in the anticompetitive practices.

It is essential to note that Ukrainian legislation does not provide the possibility of reducing fines issued for anticompetitive concerted actions for companies that participated in cartels but were not the first to apply to the AMCU with information about cartels.

However, in practice, cooperation with the AMCU and the voluntary provision of information regarding cartels are always considered as mitigating circumstances for the AMCU when making a decision.

In our view, there is a need to develop and adopt a law for legal certainty regarding the mitigation of liability. In this law, it should be directly and clearly specified that a person, who has committed anticompetitive concerted actions and voluntarily notified the relevant agency about this, could obtain mitigation of liability. The adoption of such a law would improve the legal regulation of mitigation of the responsibility for anticompetitive concerted actions and would make the activities of the AMCU more predictable for companies. Additionally, the AMCU has already tried to develop such laws, but they were undeservedly forgotten.

### 13.5.3 Parent Liability and Associations of Undertakings

The Law defines certain criteria in which both the parent company and other companies of the group are liable for violation of competition law.

According to Article 52 of the Law, if several legal entities and individuals that are included in the group that is recognized as a business entity[13]

1. committed a violation (actions, inaction) of competition law, and/or
2. have the rights without which the commission of the violation would be impossible, and/or
3. received the benefits from the competition or another advantages,

the fine shall be imposed on the business entity represented by legal entities and/or individuals who committed the mentioned violation (actions, inaction) or received (may receive) the benefits.

[13]Information letter №44 / 01 of the AMCU On the procedure for the application of sanctions for violating the legislation on the protection of economic competition to a business entity represented by several legal entities and individuals.

Thus, when imposing sanctions for violating competition law in the form of a fine for the business entities that are recognized as a group of business entities—legal entities and/or individuals—it is necessary to distinguish from this group its members, defined in the formula of the relevant provision, who:

1. committed the actions (inaction) that led to the violation of competition law,
2. have the rights without which the commission of the violation would be impossible, and/or
3. received benefits from the competition or another advantages.

Considering this issue, it should be noted that the definition of general criteria for all possible types of violations is problematic due to the lack of practice in applying the legal norm.

Looking at the possibility of the parent company reducing or avoiding the fine, the legal entity, including the parent company (general approach is defined in the legislation), may reduce the base amount of the fine by up to 50% in case of evidence of the existence of the following mitigating circumstances[14]:

1. termination of the actions containing signs of violation before the decision of the AMCU;
2. compensation for damages caused by a violation or an elimination of consequences before the decision of the AMCU;
3. elimination of conditions that encouraged the violation before the decision of the AMCU;
4. cooperation during the consideration of the case by the AMCU, which helps to identify the circumstances of the case, for which the AMCU did not ask;
5. committing a violation because of the influence of public authorities where the legal entity has been economically dependent on such bodies.

In order to calculate the fine, it is necessary to collate the entire turnover of the subsidiaries and parent, not only within Ukraine or the EU but also at the world level, which means determining the total turnover for all products according to the Law. However, in practice, when calculating the size of a fine, the AMCU considers the turnover of the goods connected with the violation in Ukraine for each company separately.

Furthermore, in the final part of the decision, the AMCU determines separately the amount of the fine for the parent company and its subsidiary.

In this regard, it is relevant to note that the parent company is liable for the anticompetitive behavior of its subsidiary if such subsidiary determines its market

[14]Recommendation clarifications from August 09, 2016 No. 39-pp On the application of the provisions of the second, fifth and sixth indents of Article 52 of the Law of Ukraine On the Protection of Economic Competition, parts 1 and 2 of Article 21 of the Law of Ukraine On Protection against Unfair concentrations.

practice not independently but as a result of instructions from the parent company. If the parent company owns 100% of the shares of its subsidiary, the rebuttable presumption implies that the parent company influences the behavior of the subsidiary, so as a result, the burden of proof falls on the parent company.

At the same time, the practice of the AMCU shows that this body analyzes the actions of the parent company and its subsidiary separately through the prism of the violation of competition law. Moreover, it is obvious that this matter regarding the liability of the parent company requires further clarifications from the AMCU.

Analyzing the liability of associations of undertakings in competition law, it should be maintained that if such an association of undertakings commits a violation of competition rules together with the members of such an association, then the fine is imposed on the association and its members separately, reflecting the turnover of the association and its members.

A good example on this issue is the case involving the Association Mebliderevprom. In 2011, the AMCU accused this Association of committing anticompetitive concerted actions.[15] The AMCU established that 14 member companies of this Association took part in the specialized auctions for the sale of untreated timber, where they agreed on a preliminary distribution of lots. As a result, more than 11,000 lots of unprocessed timber were purchased in conditions of the near-absence of competition, which led to distortion of auction results. In this case, the AMCU imposed fines on the Association and its 14 members, with the size of the fines varying.

In addition, the abovementioned association actually acted as a platform for collusion between its members (companies), which is why the association was the defendant as a separate legal entity.

### 13.5.4 Individual Sanctions Against Employees and Compliance Programs

According to Ukrainian legislation, the AMCU may impose fines on associations; business entities, which include legal entities and/or individuals; and group of business entities—legal entities and/or individuals who in accordance with the Law is defined as a legal entity.[16]

In this regard, it should be mentioned that individuals are liable for the violations of competition rules only if they are part of one business entity.

Moreover, this approach of individual sanctions is also used against employees in the company. As a rule, employees are not liable for the actions of the company in terms of compliance with competition law. If an employee violates competition law (for example, the sales manager agrees on the procedure for selling products with his

[15] Available at the following link http://www.amc.gov.ua/amku/control/main/uk/publish/article/90280;jsessionid=B33A1D57BB7C820663D33AFDAF94C69C. Accessed 8 October 2018.

[16] The Law of Ukraine "On Protection of Economic Competition", Article 52.

competitors), then the employer, regardless of whether or not he knew about the actions of his employee, would be liable.

Considering this matter, it should be said that the company is responsible for the behavior of all of its officials and employees. This approach guarantees legal awareness and compliance with the law by all employees of the company.

In addition, companies can develop a compliance program to ensure the legality of their activities and to bring procedures, rights, and responsibilities to the attention of their employees. This program could potentially help companies to avoid problems with the AMCU in case of possible qualification of their actions as a violation of competition law. In particular, such a program is very helpful for advertising campaign compliance, distribution agreements compliance, etc. and can become an important part of competition compliance.

Furthermore, the said tool can be an effective measure to encourage Ukrainian companies to prove that their activity is in line with legislative requirements and to implement competition compliance programs.

Thus, in the case of violation of competition rules by employees, a company may apply to such employees disciplinary sanctions in the form of reprimand or dismissal. This is provided in Article 147 of the Labor Code of Ukraine: "for violation of labor discipline, only one of the following measures may be imposed on the employee: 1) reprimand; 2) dismissal. Legislation, memorandums and regulations on discipline may provide other disciplinary fines for certain categories of employees."[17]

## 13.6 Present Cases

Looking at several cases involving the largest fines imposed on an individual undertaking and one procedure between 2013 and 2017, two recent cases in Ukraine should be illustrated in detail, while other cases are shown in the tables below.

The first case concerns Tedis Ukraine LLC, which abused a dominant position on the national market of cigarette distribution with a share of more than 99.5%.[18] This company abused a dominant position by setting prices for the sale of cigarettes that it could not set under conditions of significant competition on the market and by the lack of alternative sources for buyers to purchase cigarettes on the market. For these violations, the AMCU imposed on Tedis Ukraine LLC a fine in the amount of UAH 431.2 million (approximately EUR 15.7 million). In addition, Tedis Ukraine LLC was obliged to terminate the violation, eliminate its causes, and send to the AMCU

[17]Labor Code of Ukraine, Article 147.

[18]Available at the following link http://www.amc.gov.ua/amku/doccatalog/document?id=132357&schema=main. Accessed 8 October 2018.

monthly reports regarding the ten largest volumes of sales of articles, prices for the purchase, and sale of cigarettes for 3 years.

In the second case regarding the fines imposed in one procedure, the AMCU established a conspiracy for bidders at five auctions in which the company Ukrtatnafta with other companies took part, and the defendants were fined a total of UAH 1.3 billion[19] (approximately EUR 40 million). However, the Commercial Court of Kyiv overturned the decision of the AMCU to impose the fine on Ukrtatnafta.

Today, the above cases are still being considered in court. In addition, it should be noted that the latest enforcement practice of the AMCU concerns mainly large businesses, whose activity greatly affects the relevant market, and as a result, in the case of prosecution, fines may reach tens of millions of hryvnyas.

Top 5 Largest Fines per Jurisdiction Imposed in One Procedure

| Country | Case | Year | Fine |
|---|---|---|---|
| Ukraine | LLC KLO-Map and Private Enterprise Autorex, oil product cartel | 2013 | EUR 18.7 million |
| Ukraine | Cartel in retail | 2015 | EUR 7.7 million |
| Ukraine | Cartel in gasoline sales | 2016 | EUR 7.1 million |
| Ukraine | Cartel on pharmaceutical market | 2017 | EUR 4.1 million |
| Ukraine | Ukrtatnafta with other companies, oil cartel | 2017 | EUR 15.7 million |

Top 5 Largest Fines per Jurisdiction Imposed on Individual Undertakings

| Country | Case | Year | Fine |
|---|---|---|---|
| Ukraine | PJSC Poltavaoblenergo | 2014 | EUR 2.6 million |
| Ukraine | PJSC Gazprom | 2016 | EUR 3 billion |
| Ukraine | Tedis Ukraine LLC, abuse of dominant position on national cigarette market | 2016 | EUR 40 million |
| Ukraine | Sanofi-Aventis Ukrayina LLC | 2017 | EUR 2 million |
| Ukraine | Ukrtatnafta, distortion of oil sales auctions | 2017 | EUR 30 million |

[19]Available at the following link http://www.amc.gov.ua/amku/control/main/uk/publish/article/120675. Accessed 8 October 2018.

## 13.7 Need for Changes

Ukrainian legislation provides a sufficiently serious system of liability for the violation of competition rules, but in our opinion, it is necessary to continue to improve competition law based on the best European practices.

Nowadays, one of the most relevant issues is the need to amend the existing Recommendation Clarifications for calculating fines and the application of compliance programs as a mechanism for reducing the size of fines for companies.

It is important to adopt the official, binding document (Recommendation Clarifications) of the AMCU rather than leave it as an internal document as of today so that the competition authorities would be obliged to apply the Recommendation Clarifications when calculating fines. The availability of the Recommendation Clarifications would facilitate transparency in determining the amount of fines and would also enable companies to challenge in court the size of fines imposed by the AMCU.

Moreover, using this methodology of the AMCU, it is neccesary to clearly define the criteria by which the parent company is liable for the actions of its subsidiaries.

In this regard, compliance has been on the high agenda recently in Ukraine. Every company wishes to be in compliance and everyone is talking about it, yet few companies are planning to implement this compliance program. Competition compliance is no exception, and recent legislative changes bring a certain optimism with respect to its future. Recent heavy fines applied to a number of companies by the AMCU for violating competition legislation are also another incentive for implementing a compliance program.

As for a competition compliance program, active debate continues about whether certain "discounts" and some "benefits" in fines could be applied to a company that had violated legislation but had implemented a competition compliance program. In our opinion, it would be advisable to amend Ukrainian legislation so that the competition authorities can apply a discount of up to 10% if a violating company implemented a compliance program. It follows that it would be effective to provide recommendations to market players to take measures to improve compliance with competition laws, including the development of internal documents on antitrust compliance, and to conduct relevant training for top management and employees.

## 13.8 Conclusion

Needless to say, the matter of competition authorities ensuring effective control over compliance with competition law without providing a transparent mechanism for prosecution is considered impossible.

Therefore, the competition authorities, along with participation of the legal community, should put maximum effort into unifying the approaches regarding prosecution, especially in the case of parent companies. Such unification on the basis of the best world practices would not only improve the law enforcement practice of the competition authorities but also contribute to the advocacy of competition in general.

In our opinion, it is important to keep unifying the practices in different countries, specifically by issuing practical recommendations that in turn should be implemented by the relevant state and competition authorities.

# Part II

# Protection of IP Rights in Distribution

# International Report

# 14

Nikolas Guggenberger

## 14.1 Introduction

This International Report examines the following question: how can the holder of intellectual property rights protect its brands in the context of on- and offline distribution and after-sales service, and does the existing framework for such protection strike a fair balance between the interests of right holders and the interests of consumers? The report is based on national reports from Austria, Belgium, Brazil, Czech Republic, France, Hungary, Hong Kong, Italy, Romania, Spain, Sweden and Switzerland and summarises the responses received from the national reporters.[1]

[1]The author thanks the National Reporters for their excellent contributions from Austria: Andrea Zinober; Belgium: Richard Steppe; Brazil: Felipe Oquendo; Czech Republic: Radka MacGregor Pelikánová; France: Linda Arcelin, Jean-Philippe Arroyo, Jean Louis Fourgoux, Marc Lauzeral, Thibaut Marcerou, and Anne Servoir (not published); Hungary: Szakács Eszter, Hong Kong: Winnie Tam and Stephanie Wong; Italy: Marco Francetti; Romania: Paul Buta; Spain: Anna María Ruiz Martin and Vanessa Jiménez; Sweden: Johanna Spjuth, Martin Zeitlin; Switzerland: Pierre Kobel. Please note that as this international report first and foremost constitutes a summary of the national reports, verbatim quotes from the national reports are not necessarily identified as such. Background was provided to the national reporters with a questionnaire. Aspects relating to the situation in Germany were added by the author.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_14

## 14.2 Background

There are numerous reasons for holders of intellectual property rights to protect their brands in the context of on- and offline distribution and after-sales service. To give examples, they might want to maintain a certain quality of service throughout the entire value chain; they might want to ensure or increase brand recognition; secondary markets or repair markets might promise high returns, potentially even higher returns than the primary markets for the original product; they might want to protect their licensed merchants from unwanted competition; they might want to price discriminate between customer groups or regional markets.

The representatives of brands argue that it is their natural right to determine the ways and means of the distribution of their products and that after-sales services are an integral part of the experience that the companies are offering. They emphasise a holistic approach to competition and warn that limiting the downstream influence of the ultimate holders of intellectual property would harm innovation and, eventually and inevitably, consumers.

The holders of intellectual property rights realise the protection of their brands by employing direct contractual limitations, by attaching negative consequences to behaviour that circumvents the desired distribution and after-sales infrastructure or by building on practical measures. Examples of these categories are general terms and conditions dictating the business practices of licensed merchants, provisions limiting guarantees or product liability rights of consumers in cases of repairs by unlicensed providers and product design that supports vertical integration, such as non-removable batteries.

Resale competitors, downstream service providers and consumer protection groups, however, are rather critical of the common practices employed by the holders of intellectual property rights. They fear that the measures that are taken to protect brands harm downstream competition and, thereby, also lead to higher prices and worse services in the long run. Furthermore, they refer to the liberty-increasing effects of the various versions of the exhaustion doctrine, which are challenged by holders of intellectual property rights aiming at protecting their brands.

In the recent past, the platform economy has become a highly significant means of distribution of goods and services. For certain products, especially for consumer goods, the platform industry has even become the dominant form of distribution. In the wake of this development, the platform providers have emerged as crucial stakeholders in the debate on the adequate protection of brands.

As Article 6 of the TRIPS Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights) explicitly does not set harmonised standards for the exhaustion of intellectual property rights, the national and regional supranational legal frameworks define the relevant legal boundaries. With respect to the question on parallel imports, the GATT 1994 (General Agreement on Tariffs and Trade) might be of significance. Over the last years, especially the discussion of the triggers and scope of the exhaustion doctrine have gained momentum.

While not necessarily relevant to all national reports, I still would like to point out the judgment of the European Court of Justice from 6 December 2017 on selective distribution systems at the intersection of intellectual property and competition law.[2] In its determination, the Court stated that a supplier of luxury cosmetics may, in principle, set up a selective distribution system for luxury goods designed, primarily, to preserve the luxury image of those goods.

Specifically, the Court established that competition law (Article 101(1) of the Treaty of the Functioning of the EU (TFEU)) must be interpreted as not precluding a contractual clause, which prohibits authorised distributors in a selective distribution system for luxury goods designed, primarily, to preserve the luxury image of those goods from using, in a discernible manner, third-party platforms for the internet sale of the contract goods, on the condition that the clause has the objective of preserving the luxury image of those goods, that it is laid down uniformly and not applied in a discriminatory fashion and that it is proportionate in the light of the objective pursued. The scope of this judgment, including the precise definitions of 'luxury goods' and 'luxury image' and the application of these terms, as well as the consequences for other potential interests in protecting brands, are not yet fully conceivable.

As a very general observation, the legal and political discussions around the protection of brands by holders of intellectual property rights in the context of on- and offline distribution and after-sales services show strong parallels across the various jurisdictions. Apart from specific insular legislative action, the variations between the jurisdictions mainly revolve around the emphasis on consumer rights within the application of principles based on technologically neutral regulation. Unsurprisingly, within the European Union, there is a significant level of harmonisation, especially in the areas of unfair competition law, anti-trust law and consumer protection, mainly due to EU secondary legislation and the jurisdiction of the ECJ. To that end, the Czech report, for example, notes that Czech courts even outside the scope of full or partial legal harmonisation rely heavily on trends set by EU case law in areas relevant to this report. That said, national legal regimes even within the EU vary not just relating to the application of Union standards but also in so far as some Union acts only provide for minimum standards or are limited in scope. The Hong Kong Copyright Law, by and large, incorporates principles of the UK Copyright, Designs and Patents Act and, thus, is influenced indirectly by the past and recent developments in the EU as well.

All national reports showcase the economic relevance and distributive significance of the balance between the interests of the holders of intellectual property rights and consumers. The debate on the right balancing of the interests involved inevitably incorporates larger, policy-centered questions on the fair, just and efficient design of the economic system.

[2] CJEU, case C-230/16, *Coty Germany GmbH v Parfümerie Akzente GmbH*, ECLI:EU:C:2017:941.

## 14.3 General Overview

As a starting point, it can be concluded that the general principles of IP protection, including trademark, patent and copyright law, show recognizable similarities in all jurisdictions that were surveyed, not least due to the ongoing EU efforts to harmonise the legal regimes. The rules specifying the preconditions for protection and governing the levels of protection are laid out in either more comprehensive codes or separate specific acts pertaining to different IP rights. The hierarchical level at which IP rights are protected varies by jurisdiction. The Swedish report emphazises the strong position of copyright protection specifically in national law and points out that it is even referenced explicitly in the Constitution. Other jurisdictions, Germany for example, summarise certain aspects of IP protection under various more general constitutional guarantees.

In France, an exhaustive list of protection defines the scope of IP rights, and any attempt by an IP right holder to protect an essential function not defined in the IP laws will be considered fraudulent. In Hungary, there is an exhaustive list of infringing activities in the Patent Act, while the Trademark Act contains a non-exhaustive list of activities that may be considered infringing. Various jurisdictions report an absence of a distinction concerning the level of protection with regard to various distributive channels, for example differentiating between offline and digital distributions. Specifically, the Brazilian and the French reports mention special provisions relating to the use of geographical indications to protect both consumers and the fairness of competition.

Computer programs and other digital products are generally governed by special rules. The Brazilian report points at specific legislation for computer programs; the French report mentions a *sui generis* right concerning databases, while the Romanian Copyright Law contains a *sui generis* right protecting database designers; the Austrian Copyright Act and German Copyright Law[3] protect computer programs as specific kinds of work.

Competition and anti-trust law in all jurisdictions are governed by similar basic principles. Most jurisdictions operate under the assumption of a special responsibility that is derived from a dominant position in the market. All jurisdictions recognise some version of an essential facility doctrine. In the practical application of competition law principles, the economic approach and interpretation of consumer welfare seem dominant.

## 14.4 Protection of Trademarks and Brands

In all jurisdictions, trademark owners are granted the right to exclusively use certain signs to identify themselves and ensure distinctiveness. In order to guarantee distinctiveness, the protection of brands includes provisions against the use of identical

[3] Sections 69a ff. German Copyright Law.

or similar signs if there is a likelihood of confusion. Specifically, the report from Hong Kong points out that well-known or established brands enjoy a higher degree of protection as a potential infringement does not depend on the offering of similar goods or services.

The essential function of trademarks has been recognised by the European Court of Justice as guaranteeing 'the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin'.[4] Various national reports supplement this reasoning by pointing out other functions, such as consumer protection, advertising or ensuring quality standards.[5] According to Belgian courts, it is a breach of an essential function when third parties' actions limit trademark owners in examining the first sale of resulting products.

Generally, trademarks must be registered to benefit from legal protection as an IP right. Under certain circumstances, however, unregistered marks may enjoy legal protection as well. German trademark law, for example, attributes protection to unregistered signs used in the course of business that have gained sufficient acceptance as marks and to well-known marks.[6] A similar provision can be found in Spanish law. The Swedish Trademarks Act applies to unregistered trademarks that have acquired distinctiveness through use.[7] In Romania, well-known symbols are protected if they acquire a distinctive status. Certain unregistered signs used for products or services (e.g. packaging, the color of employee clothes or the design of an online store) can fulfil functions similar to those of registered trademarks. It is important to note that unregistered brands can be protected by IP rights other than the respective trademark law in question, including rules against unfair competition.[8] If the relevant characteristics enjoy a certain level of recognition and distinctiveness, owners may invoke them against third parties using similar signs suitable to cause confusion, in Austria for example based on the Unfair Competition Act. In Hong Kong, the holder can additionally invoke the common law tort of 'passing-off' to protect unregistered trademarks.[9]

The level of protection is generally independent of the marks' online or offline use. Furthermore, it is technologically neutral. However, the application of the very same standards in an online and an offline context can lead to differing outcomes as certain online platforms limit the expressive choice of users to letters, words and certain signs. By and large, the protection of trademarks is furthermore independent of other factors, such as the intensity of its use and the monetary value of the brand. In relation to this aspect, the Austrian report notes that trademarks can be subject to

[4] E.g. ECJ, case C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, ECR 1978 01139, pt 7.

[5] Romanian report, p. 2; French report, p. 1.

[6] Section 4 Nr. 2, 3 German Trademark Law.

[7] Swedish report, p. 3.

[8] Czech report, p. 7.

[9] Hong Kong report, p. 2.

cancellation if they are not used over a period of 5 years. An identical provision can be found in German[10] and Spanish trademark law.

The Hungarian report points out that trademark protection cannot be enforced if the holder has not put the trademark to genuine use or in cases of the exhaustion of the right or if the trademark has lost its distinctive character. Trademark holders may not prohibit third parties to use the mark in order to inform consumers about their own products and services, which is especially relevant with regard to accessories, spare parts and repair services. However, the trademark may not be used in a way that invokes an impression of contractual association between the trademark owner and the third party, and the use must be in line with honest commercial practices. A distributor may not register a trademark as part of a domain name unless it becomes clear that the website is not related to the trademark owner.[11] The French report points out that trademarks may be used by third parties to describe the composition, function, nature, characteristics or qualities of the product or service in question.

## 14.5 Protecting Brands Using Distribution Management

It has become commonplace for holders of IP rights to try to protect their brands by managing the distribution of their products and services. The balance to be struck between their interests and consumers' interests relates to the extent to which a legal system allows the holders of intellectual property rights to define the framework for distribution after the initial sale. Distribution management may include factual or legal limitations within or beyond the direct chain of distribution and may concern the interests of downstream merchants, consumers and the public.

### 14.5.1 Selective Distribution Networks

Most notably, in December of 2017, the EJC in the *Coty* case[12] ruled on selective distributive systems that serve to ensure a 'luxury image' of goods. The distributive system was based on restrictions of distributors for selling the goods in question on the platform www.amazon.de. Instead of using the open platform Amazon, the brand owner wanted sales only to be conducted through an 'electronic shop window' of the authorised store, ensuring the luxury image of the brand. In this context, a German court presented the ECJ with the question whether 'selective distribution systems that have as their aim the distribution of luxury goods and primarily serve to ensure a "luxury image" for the goods constitute an aspect of competition that is compatible with Article 101(1) TFEU' and whether 'it constitute[s] an aspect of competition that

[10] Section 49 German Trademark Law.

[11] Hungarian report, p. 5.

[12] CJEU, case C-230/16, *Coty Germany GmbH v Parfümerie Akzente GmbH*, ECLI:EU:C:2017:941.

is compatible with Article 101(1) TFEU if the members of a selective distribution system operating at the retail level of trade are prohibited generally from engaging third-party undertakings discernible to the public to handle internet sales, irrespective of whether the manufacturer's legitimate quality standards are contravened in the specific case'.[13] These questions resulted in a ruling of the ECJ establishing that competition law 'must be interpreted as not precluding a contractual clause, [. . .] which prohibits authorised distributors in a selective distribution system for luxury goods designed, primarily, to preserve the luxury image of those goods from using, in a discernible manner, third-party platforms for the internet sale of contract goods, on condition that that clause has the objective of preserving the luxury image of those goods, that it is laid down uniformly and not applied in a discriminatory fashion, and that it is proportionate in the light of the objective pursued'.[14] Applying this interpretation to the original case, the German court concluded that the clause was legal under competition law.[15] Pertaining to luxury goods, the Swiss Competition Commission introduced a narrow exception in an Explanatory Note laying out that imposing certain restrictions on members of a selective distribution network for luxury goods is not qualitatively significant, which means that it is not considered unlawful in the meaning of Swiss Cartel Law.[16] The exact scope of the category of luxury goods remains unclear. It is questionable whether there is a special interest only in preserving a luxury image or whether other images that brands might wish to establish exclusively are protected as well. It is well perceivable that certain values such as certain standards of corporate social responsibility, sustainability or fair trade could be established as defining aspects of brands for the same reasons that the Court has provided in the *Coty* case. At this point, it is not possible to estimate the range of the Court's jurisdiction or the scope of the applicability of the reasoning.

The issue of a prohibition of the use of marketplaces had been examined by the French Court of Cassation before the decision in the *Coty* case but after the publication of the conclusions of the Advocate General. The clause had previously been validated by the Conseil de la Concurrence. In the future, the French report points out, national courts will likely apply the conclusions outlined in the *Coty* decision.[17] On the very same question, the Brazilian report mentions a recent discussion concerning the prevention of the resale of a product in venues deemed incompatible with a trademark holder's self-perception. The measures would be based on protection against dilution of the mark and considerations of consumer protection. According to the Italian report, selective distribution potentially restricts

[13] CJEU, case C-230/16, *Coty Germany GmbH v Parfümerie Akzente GmbH*, ECLI:EU:C:2017:941, pt 20.

[14] CJEU, case C-230/16, *Coty Germany GmbH v Parfümerie Akzente GmbH*, ECLI:EU:C:2017:941, pt 58.

[15] Higher Regional Court, Frankfurt am Main, decision of 12 July 2018, ref. 11 U 96/14 (Kart).

[16] Swiss Report, p. 13.

[17] French report, p. 8.

competition but is not necessarily considered to fall under the prohibition of anti-competitive agreements. According to the Italian Civil Code, a seller engages in unfair competition by ‘continuing to market products of a certain brand even after the manufacturer has made known the existence of a selective or exclusive distribution system’. Here the rationale lies in countering the risk of compromising a manufacturer’s investments in the promotion of products or its brand, in the company’s image or in consumers’ loyalty. In Hungary, national legislation exceptionally recognises selective distribution systems.

In the context of online distribution, the holder of IP rights may generally impose constraints similar to those imposed on offline outlets. The justifications for selective distribution mechanisms in the surveyed jurisdictions seem technologically neutral in a sense that they are based on the characteristics of the product and the brand image. It is important to note that IP right holders, at least in the EU, may not prohibit the use of online platforms by authorised distributors entirely.[18] Imposing qualitative criteria is possible. The Romanian report states that limitations on subsequent sales are mostly enforceable, as long as they do not infringe on the public order. Examples of such limitations are specifications on the presentation of products, marketing materials and packaging.

The Swiss report points out the significance of a distinction between vertical restrictions of active sales and restrictions of passive sales as the latter are treated with more leniency. It is worth exploring whether and to what extent a general distinction between active and passive sales in the context of selective distribution networks can provide reliable distinctions supported by a sound economic justification.

### 14.5.2 E-commerce and Online Platforms

In the EU, the liability of online platforms for third-party content is limited by the E-Commerce Directive.[19] The E-Commerce Directive is transposed into national law in the EU Member States, for example in Germany by the Telemedia Act (TMG), in France by the Law for Confidence in the Digital Economy and in Hungary by the E-commerce Act. It is important to differentiate between the host of third-party content whose liability is limited by the E-Commerce Directive and the direct liability of a publisher of content. Similar to the situation in the EU, under Brazilian law, the liability of internet application providers is limited.[20]

[18]CJEU, case C-439/09, *Pierre Fabre Dermo-Cosmétique SAS v Président de l’Autorité de la concurrence und Ministre de l’Économie, de l’Industrie et de l’Emploi*, ECR 2011 I 9419.

[19]Directive 2000/31 of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, OJ 2000, L 178.

[20]Brazilian report, p. 5.

When it comes to the application of the standards applicable in individual cases, it is highly contested which duties e-commerce platforms and individual merchants selling or reselling goods on e-commerce platforms must satisfy to avoid liability for the trademark infringements by (other) sellers on the platform. The situation is especially problematic because *Amazon*, for example, allows the individual seller to sell a product under a unique identification number providing a crowd-sourced and adjustable description of the product. German courts have imposed far-reaching duties on sellers relying on *Amazon*'s default product description to check for potential trademark infringements on an ongoing basis.

Different laws governing IP rights in Romania allow for the enforcement of rights against infringers and intermediaries. The fact that an e-commerce provider does not sell infringing products itself does not necessarily exclude its liability if it has allowed the advertising and sales of such products and obtained an income from it after being made aware of the infringement and having refused to take down infringing offers.

### 14.5.3 Geo-blocking

A measure of significant importance when it comes to downstream limitation and especially the fragmentation of markets is geo-blocking. The definitions of geo-blocking vary from jurisdiction to jurisdiction. While the French report defines geo-blocking as preventing access to or modifying content according to the IP address, the Swedish report qualifies it more broadly as a restriction of access to certain works or websites based on the location of the user. The Brazilian report describes geo-blocking in even broader terms as the manipulation of availability of offers of products or services. The differences between the definitions are illustrated by an example that the Austrian report provides: the Austrian Association for Consumer Information brought an action against a German railway company that requested a German domicile for the use of SEPA payments. The Austrian Supreme Court asked for a ruling by the ECJ and referred to the new EU Regulation 2018/302[21] addressing unjustified geo-blocking.[22] The question whether such behaviour constitutes geo-blocking depends on the understanding of the term and its definition. From 3 December on, EU Regulation 2018/302 will generally ban geo-blocking on an EU level. However, several national reports rightly point out the limitations of the effects of this framework, especially as far as potential copyright infringements are concerned.

[21]Regulation 2018/302 of the European Parliament and of the Council of 28 February 2018 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market and amending Regulations 2006/2004 and 2017/2394 and Directive 2009/22, OJ 2018, L 60I.

[22]Austrian report, pp. 3–4.

Various reports stress the importance of competition law to assess the practice of geo-blocking. On a European level, the question is governed by Article 101 TFEU, which prohibits anti-competitive agreements, and Article 102 TFEU, which prohibits abusive behaviour of an undertaking of a dominant position. Geo-blocking could be construed to amount to 'applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage', Article 102 (2)(c) TFEU. The Swedish Competition Authority considers geo-blocking in its understanding to violate the market freedoms of the EU; however, the notion has not yet been tested in Swedish courts. To date, there is no decision by the French Competition Authority on the issue of geo-blocking practices. In Hungary, sanctions by the Hungarian Competition Authority are deemed possible under competition law, applying the general standards of the abuse of a dominant position. The Swiss report points out that geo-blocking could be considered an absolute territorial restriction under the Swiss Cartel Act when 'a prohibition of Internet sales is tied to stipulations restricting usage of the distributor's website for clients situated outside of its territory or redirecting such clients to the manufacturer or another distributor or purporting to automatically interrupt the online transaction when the credit card shows an address outside of the distributor's territory'. German law does not specifically address geo-blocking.

The Brazilian report mainly qualifies geo-blocking as an issue of consumer protection law. The practice could be characterised as an abusive practice under the Consumer Protection Code in the form of a refusal to meet consumer demand and a refusal of the sale of goods or services to those who are willing to acquire them upon prompt payment. Furthermore, geo-blocking could violate the Consumer Protection Code regarding the duty to provide clear information on products and services. While lawsuits have been filed in Brazil, there are no specific court decisions on the subject so far.

### 14.5.4 Exhaustion

A significant limitation to the ability to manage the downstream marketing of goods is the doctrine of exhaustion. Due to the regional exhaustion in the EEA, parallel importation from other EU Member States cannot be prohibited where an IP right has been exhausted by an authorised first sale somewhere in or into the EEA. The Romanian report points out that the Romanian Competition Council closely monitors the market behaviour of undertakings and imposes significant fines if it finds that agreements aim at limiting or impeding parallel imports between the EU Member States. The French report comes to similar conclusions, which suggests that the mechanisms outlined in EU law are generally implemented effectively in the EU. It is to be noted that parallel importation of medicines and pharmaceuticals falls under special rules. In general, the laws of the EU Member States contain two very similar provisions on the exhaustion of trademarks and their usage.

#### 14.5.4.1 General Conditions and Limitations

First, trademark holders cannot prevent the use of the trademark for products that have been put on the market in the EEA under that mark by the holder or with its consent. Second, there is an exception in cases of legitimate reasons to oppose certain marketing practices, e.g. alterations of the product. The ECJ has specified those legitimate reasons to be cases in which the usage of the trademark would likely cause serious harm to the image, reputation or brand itself[23] or where the use of a trademark gives the impression of a business connection between the reseller and the right holder.[24]

In France, courts have accepted a legitimate exception to the exhaustion where the 'maintenance of the mark on the modified product tended to make the consumer believe that the owner of the mark was responsible for the entire production process.' The French report in this context also mentions several decisions in favour of the French luxury company Chanel against the marketing of products under devaluing conditions that were deemed incompatible with the brand's image.[25] In Belgium, courts have recognised the reputation of trademarks as being related to the quality of the products and the way in which they are traded and whether the circumstances of the transport, storage and display of the products (here: chocolates) are detrimental to their quality and therefore would be detrimental to image of the brand.[26]

The Law of Hong Kong provides a similar exception: the use of the trademark may be limited where a change or impairment of the condition of the goods occurs after they have been put on the market and the use of the trademark would be detrimental to the distinctive character or reputation of the mark. According to the ruling in the case *Hugo Boss Trade Mark Management GmbH & Co KG v. ISA Boutique Ltd*, it is irrelevant why, where and by whom the impairment has taken place.[27] In Brazil, trademark owners cannot forbid the free circulation of products placed on the internal market by them or with their consent. The Superior Court of Justice has accepted international exhaustion in some cases in the past but backtracked by requiring a written contract to constitute consent to the parallel legal importation in these cases.

Switzerland has the widest scope of trademark exhaustion. The main function of trademark law in Switzerland is considered to be the guarantee of distinctiveness in a

[23]ECJ, case C-349/95, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v George Ballantine & Son Ltd and Others*, ECR 1997 I-06227; ECJ, case C-59/08, *Copad SA v Christian Dior couture SA, Vincent Gladel und Société industrielle lingerie (SIL),* ECR 2009 I-03421; ECJ, case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV,* ECR 1997 I 6013.

[24]ECJ, case C-63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v Ronald Karel Deenik*, ECR 1999 I 905.

[25]Cass. Com., 23 March 2010, No. 09-65844, *CHANEL c / LAND*; Cass. Com., 23 March 2010, No. 09-65839, *CHANEL c / CAUD*; Cass. Com., 24 May 2011, No. 10-18474, *CHANEL c / CAPI*; Cass. Com., 4 October 2011, No. 10-20914, *CHANEL c / VILL*; French report, pp. 10–11.

[26]Belgian report, p. 18.

[27]HCA 251/2007, 2 October 2008, Hong Kong report, p. 9.

sense that is limited to the designation of the source of the goods. According to the early jurisprudence of the Swiss Supreme Court (based on national exhaustion), parallel imports, for example, could not be opposed as long as there was no likelihood of confusion of consumers as to the origin of the goods. Unlike the previous law, the Swiss Trademark Act does not reference the distinctive function, but according to the Swiss Supreme Court, the Swiss legislator had 'no intention to challenge the previous jurisprudence and to prevent parallel trade. Therefore, an interpretation supporting a national exhaustion regime could not stand.' This results in international exhaustion of trademarks, limited to the extent necessary for the further trading of the products. Functions relating to the quality or advertisement and marketing are not protected.

The exhaustion of patents is significantly more fragmented in the EEA. There is only national exhaustion according to the Czech Patent Act and the Belgian Code of Economic Law. The Swiss Patent Act contains rules concerning the geographic scope of exhaustion, and the Supreme Court construed it to amount to national exhaustion. However, the Swiss Parliament adopted a regional approach to exhaustion covering the area of the EEA.

Exhaustion of Copyright only concerns the distribution rights, while the rights of reproduction and representation or communication (including rental rights) and diffusion are inexhaustible. In Switzerland, the principle of exhaustion is subject to the type of protected work: parallel imports of DVDs and videotapes are prohibited during the first performance right (right of performance in cinemas); the online distribution of copies of works is considered to fall under the right to communicate and generally does not constitute a distribution. The Swiss Supreme Court applies an international approach to exhaustion of copyrights.

#### 14.5.4.2 Trigger

The trigger for exhaustion is the first sale of the product in the relevant geographic market. According to the jurisdiction of the ECJ, 'a 'sale' is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him.'[28] The application of this standard varies by Member State and ranges from the first sale or other property transfer[29] to the first sale of work in a tangible form[30] to the first sale or rental, if the author receives adequate remuneration,[31] and to the first transfer of property of a copy.[32]

[28]CJEU, case C-128/11, *UsedSoft GmbH v Oracle International Corp.*, ECLI:EU:C:2012:407, pt 42.

[29]Belgian report, p. 5.

[30]Czech report, p. 6; French report, p. 10.

[31]Austrian report, p. 6.

[32]Section 17 German Copyright Law.

Trademarks' exhaustion is triggered by putting the products on the market,[33] which is defined by the ECJ as the actual sale of the protected product going beyond preparatory actions.[34] According to the Czech report, a first sale is not required. The Belgian Court of Cassation stresses that exhaustion of the trademark does not occur where the holder tries but does not succeed in selling the products on the EU market. In Italy, exhaustion is triggered for industrial property rights by 'any legal transaction [. . .] which implies the destination to the market of the marked product and assigns to the third party a power of enjoyment over the product for which a payment is typically required'. This includes any transfer of property for a consideration or free of charge or through stipulation of a contract that constitutes a right of usage, such as rental or lease agreements.

According to Brazil's first-sale doctrine, the owner of an IP right or authorised party must enter the product into commerce, either for a consideration or free of charge, and transfer of ownership of a physical good must occur. Leasing or rental agreements are not sufficient.

#### 14.5.4.3 Digital Goods

Concerning digital goods, the starting point in all jurisdictions seems to be the transfer of a physical copy of the digital good. However, since the ECJ's *UsedSoft* decision, the download of a digital copy of computer programs for an unlimited time in exchange for payment is generally considered sufficient to trigger the doctrine of exhaustion for computer programs. The Higher Regional Court of Hamburg, on the one hand, ruled that the ECJ's *UsedSoft* jurisprudence could not be transferred to other digital goods, such as e-books or audiobooks.[35] This approach leads to a split according to whether the exhaustion concerns computer programs or other digital content. The Belgian report makes a similar observation.

On the other hand, the definition of copies in Romanian Copyright Law expressly includes digital copies, which suggests that transfer of ownership of any digital copy leads to the exhaustion of the IP rights. In the Czech Republic, only the Copyrights Act distinguishes between tangible and intangible goods. Aside from copyright law, the exhaustion doctrine applies without regard to the digital or physical nature of the goods. For Brazil, the national reporter would expect Brazilian courts in a case similar to *UsedSoft v. Oracle* to construe software licensing as a trigger of exhaustion ('insertion in the market' can be construed to include licensing).[36] The Italian report stresses that Italian law does not recognise an exhaustive effect from any sort of interactive availability. It is noteworthy that the French report stresses the significant challenges related to the determination of a first sale in relation to digital goods.

[33]French report, p. 10; Hungarian report, p. 8; section 24 German Trademark Law.

[34]ECJ, case C-16/03, *Peak Holding AB v Axolin-Elinor AB, formerly Handelskompaniet Factory Outlet i Löddeköpinge AB*, ECR 2004 I 11313.

[35]Higher Regional Court, Hamburg, order of 4 December 2014 and order of 24 March 2015, ref. 10 U 5/11.

[36]Brazilian report, pp. 6–7.

Overall, the doctrine of exhaustion will persist to play a significant role in limiting the influence of holders of intellectual property rights over the downstream and secondary markets and the respective market infrastructure. The future development of the exhaustion doctrine will have a major impact in determining the fungibility of digital products.

#### 14.5.4.4 Burden of Proof

One of the most relevant aspects in the practical application of the exhaustion doctrine is the allocation of the burden of proof. In general, this burden lies with the alleged infringer and person who claims the exhaustion of the IP right in question. Several national reports cite the *van Doren+Q* case of the ECJ[37] as defining the distribution of the burden of proof to lie with the third party using the trademark in question. According to this standard, the burden can shift where the third party successfully establishes a real risk of a partitioning of the market, particularly where exclusive distribution systems are in place. The Austrian report mentions a 2009 judgment[38] according to which the defendant bears the burden of proof relating to the exhaustion unless she can prove that revealing her source of supply would carry the risk of market foreclosure. If that were the case, the burden of proof falls back on the trademark owner. She then must prove that products were inserted into the market from outside the territory of the EEA without her consent. Specifically, the Czech report notes that in trademark cases, the burden of proof can be shifted comparatively easily.[39]

## 14.6 Protecting Brands by Controlling After-Sales Services

### 14.6.1 Guarantee

Manufacturers of goods around the globe try to secure their share in the repair markets and markets for spare parts as those have proven to offer comparatively large margins. One obvious option to secure influence over these markets is to limit the guarantees associated with the product. The provisions governing the limitations that manufacturers may impose on customers differ significantly by jurisdiction. Some jurisdictions acknowledge a right of the producer to limit guarantees in case of unauthorised repairs. According to the Brazilian report, 'the law seems to admit that the guarantee can be conditional on an accredited network of technical assistance', and no court has so far rejected conditions of that sort as illegal or abusive.[40]

[37] ECJ, case C-244/00, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, ECR 2003 I 3051.

[38] OGH, 22 September 2009, 17 Ob 16/09s.

[39] Czech report, p. 5.

[40] Brazilian report, p. 11.

The Hungarian consumer protection regulation and Civil Code contain mandatory provisions concerning the terms of guarantee and product liability that cannot be limited by manufacturers. However, in case of additional contractual guarantees, manufacturers are granted significant leeway when defining the conditions of that guarantee. In Italy, warranties are considered to only apply in case of repairs using original parts. In case of a replacement with an unauthorised part, a guarantee expires as it relates to further malfunctions. To preserve the guarantee, repairs may only be conducted by authorised service providers or specialised repair companies. Romanian courts have held that consumers are no longer able to enforce their guarantees if they choose an authorised third party to repair a product. The same likely applies to 'breaking of seals' of a product. Referencing Regulation 461/2010,[41] the Austrian report mentions that additional warranties granted by producers can be bound to repairs by authorised partners.

In contrast to the described rather liberal approach, the French legislature has enacted provisions to curb the practice of limiting guarantees for consumers in the event of third-party repairs. This enhances competition in the repair market as it allows third-party providers to enter it. Apart from an obligation to provide spare parts to third-party repairers, sellers offering a guarantee in the sense of the Consumer Code must inform the customer that the guarantee is not subject to repair and maintenance services being carried out by a partner approved or authorised by the seller.

Additionally, professionals offering maintenance or repair services for certain types of vehicles specifically must allow consumers to opt for the use of spare parts in accordance with the principles of the 'circular economy', instead of opting for new parts.[42]

The Swedish report mentions a specific case in which the restriction of a warranty was struck down: the manufacturer *KIA* offered a 7-year warranty for a certain model if regular services were provided by authorised service centers approved by *KIA*. Otherwise, the guarantee would only last 3 years. The court concluded that *KIA* and the authorised service centres had a collective market share of 80% for after-sales services and the warranty provisions excluded unauthorised service centres from the market in violation of Article 101(1) TFEU.

Overall, there seems to be a divide in jurisdictions opting for a more liberal approach to limiting the downstream influence of manufacturers and others that put a bigger emphasis on competition on the respective secondary markets and especially sustainability and environmental protection. The legitimate interests of the holders of intellectual property rights in protecting their brands in after-sales services do not seem to justify the impediments and the environmental harm inevitably caused by

[41] Commission Regulation 461/2010 of 27 May 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices in the motor vehicle sector, OJ 2010, L 129/52.

[42] Art. R. 224-22 Consumer Code, French report, p. 17.

restrictions on guarantees to repairs by authorised partners generally relying more heavily on new parts.

### 14.6.2 Right to Repair

As a reaction to the practices by manufacturers of contractually or factually restricting the possibilities to repair goods, across various jurisdictions there is an ongoing debate on whether and to what extent a consumer should have a specific right to repair aside from contractual guarantees or statutory remedies for defects. This right is to enable consumers to repair devices or have them repaired by third-party providers and may mainly consist of only the provision of the necessary information. The right to repair is also discussed in relation to the design of products and the possibility to repair them without destroying integral parts.

The definition of the scope of the right to repair is at the centre of the balance between consumer interests, environmental protection and the interests of the holders of intellectual property rights in the protection of their brands. A Resolution by the European Parliament from 4 July 2017 demands that 'repairs and spare parts should be made more readily accessible' and calls on the Commission to promote product repairability in general. In the EU, Regulation 595/2009[43] requires that automotive manufacturers must provide unrestricted access to maintenance and repair information and the necessary diagnostic equipment enabling independent repairers to provide their services. In some countries, a further trend towards improving access to repair can be seen.

The EU Battery Directive,[44] mentioned by the Belgian and the Romanian report as having been transposed into national law,[45] obliges the Member States to ensure that manufacturers allow end users to remove batteries and accumulators personally or by qualified professionals. The factual difficulties of removing and exchanging the batteries and the potential consequences for the warranties, however, are not sufficiently addressed in this Directive.

While there is no legally defined right to repair in Brazilian law, the Consumer Code states that manufacturers and importers must make replacement parts available for as long as the product in question is still being manufactured or imported. The offer must be maintained for a reasonable period after the product is no longer available. Legal precedent suggests that 'a reasonable period' equates to the average

[43]Regulation 595/2009 of the European Parliament and of the Council of 18 June 2009 on type-approval of motor vehicles and engines with respect to emissions from heavy duty vehicles (Euro VI) and on access to vehicle repair and maintenance information and amending Regulation 715/2007 and Directive 2007/46 and repealing Directives 80/1269, 2005/55 and 2005/78, OJ 2009, L 188.

[44]Directive 2006/66 of the European Parliament and of the Council of 6 September 2006 on batteries and accumulators and waste batteries and accumulators and repealing Directive 91/157, OJ 2006, L 266.

[45]Belgian report, p. 31; Romanian report, p. 21.

expected life of the product. The Brazilian report identifies problems on the secondary market for spare parts due to the enforcement of rights in registered industrial designs, which prevent dealers from making identical or similar parts without paying royalties.

In France, spare parts can be protected by design law, and the legislature has refused to adopt a respective 'repair clause.' Despite the recommendations from the French Competition Authority, provisions are still described to be very favourable to right holders. In 2014, the 'Hamon' law introduced a far-reaching duty to provide information on the availability of spare parts and to provide these spare parts within a certain period. Manufacturers must inform professional resellers and consumers about the period during which spare parts for a product will be available. The reparability is presumed to be a relevant criterion for purchase and an important contributor to the development of more sustainable consumption patterns. Suggestions for further improvement relate to the fact that there is no duty to provide negative information: while manufacturers have no obligation to provide information about the fact that they do not offer spare parts, they might be fined if they do offer insufficient information about the spare parts that they do provide. Furthermore, the specificities of the presentation of information are said to be suboptimal.

Unlike the French design law, the Hungarian Design Act states that a protected design does not entitle its holder to prohibit a third party from using said design to repair a complex product. This provision in itself is subject to the limits of honest industrial and commercial practices. The Hungarian report specifically points out the potential of competition law to limit the possibility to restrict the provision of spare parts to third-party providers.

In Italy, Reg. No. 1475 gave independent repairers a right to access spare parts and technical information. Difficulties in accessing technical information and diagnostic equipment necessary for the repair of the most recent vehicles hinder competition on the repair market. A new regulation is supposed to expand the access to software, tools, diagnostic equipment, workshop equipment and training. The new law is designed to prevent the holders of IP rights from abusing these rights to unduly limit the possibilities to repair goods. The Austrian report points out the fact that repair shops for motor vehicles must be supplied by producers with original spare parts and the necessary technical information.

The Swedish report states that there is no general right to repair in Swedish law. A governmental inquiry on the advancement of the circular economy found a common practice in the IT sector to limit access to codes and instructions to authorised parties.

In German law, there are no express provisions of general applicability going beyond the European standards requiring manufacturers to provide spare parts unless the product is defective at the time of the sale. Theoretically, such duty could only be derived on an individual basis relying on the concept of good faith. In a case in which an automobile manufacturer ended the contractual relationship with an auto shop specialised in tuning cars exclusively by this manufacturer and refused to continue to provide spare parts, accessories and access to the diagnostic system, this behaviour was considered to constitute an anti-competitive abuse of a dominant position.[46]

Concerning digital goods, the Brazilian report points out that there is no duty for an owner of IP rights to provide updates to the software provided to customers. At most, the consumer can demand technical assistance regarding a particular version of the program during the term of its technical validity. In cases in which consumers have demanded updates to be able to use applications in upgraded versions, courts have struck down these demands as long as the missing updates did not prevent consumers from using their devices with previous versions of the applications.[47]

### 14.6.3 Reverse Engineering

Reverse engineering can constitute an infringement of copyrights. Especially in the context of computer programs, the limitations on reverse engineering are an important element in protecting the holder of intellectual property rights against horizontal competitors trying to replicate the products. Thereby, the anti-reverse engineering rules protect the investments of the holder of the intellectual property rights. However, beyond the protection against horizontal competitors, anti-decompilation rules also have the potential to allow holders of intellectual property rights to exert control over downstream markets. This is where exceptions to the general rules protecting IP right holders ensuring interoperability gain relevance.

The rules on reverse engineering of software in the EU are defined by EU Directive 2009/24 on the legal protection of computer programs.[48] Article 6 of the Directive establishes far-reaching protections of the IP right holder against any sort of decompilation. The only exception to the general requirement to obtain authorisation from the right holder relates to the situation where 'where reproduction of the code and translation of its form' are 'indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with other programs.' Various national reports mention this exception, and some describe it as being very narrow.

The French report mentions that the rights are indeed practically enforced by courts, whereas the Austrian report points out that the practical relevance of the provision is rather negligible. In France, the rules on technical protections against infringements of copyrights prohibit protective measures that prevent or limit interoperability. Also, a regulatory authority, the *Regulatory Authority for Technical Measures*, is specifically charged with ensuring interoperability. In general, the observation and testing of a program to reproduce its functionality are deemed to

[46]Federal High Court of Germany, decision of 6 October 2015, ref. KZR 87/13.

[47]Brazilian report, p. 11.

[48]Directive 2009/24 of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ 2009, L 111.

be permissible under the legal regimes influenced by the Software Directive.[49] The same holds true for Brazil. The report from Hong Kong draws connections to repair markets and clarifies that the so-called spare parts exception cannot serve as an entitlement to manufacture spare parts using reverse engineering.

The Italian report points out that the Italian Industrial Property Code protects information against parties that have acquired it in an abusive way and that this can include reverse engineering. The available case law permitting reverse engineering mainly relates to the support of certain file formats. The Swedish report contrasts the rather narrow options for reverse engineering in copyright law with the more generous approach in Swedish patent law that allows for experimentation with a patented product for the sake of research and development. The report also raises the interesting question of the justification for different standards for limitations on reverse engineering for different IP rights.

### 14.6.4 Software (and More) as a Service

The easiest way to fully control the further distribution of products and, therefore, create the most favourable environment for the protection of brands is to change the distribution model entirely from a system that is based on the one-off delivery of goods or services to the provision of services in constant increments or on demand. This practice has become visible and successful in many sectors, but especially so relating to the digital economy. However, the economic reasoning as it relates to the protection of brands had been established in the offline distribution long before. Breweries, for example, have bound restaurants and bars to exclusively purchase from them by linking the provision of equipment and infrastructure to the exclusive purchases. Depending on the specificities of leasing agreements, those contracts, in general, can be perceived as shifting from the one-off provision of goods to an ongoing provision of services, allowing for a higher degree of protection of the manufacturers' brand. From a perspective of ensuring competitive secondary markets, the practice of bundling products and future ongoing services is perceived to be especially problematic.

In the EU, where a manufacturer or a distributor of products has a dominant position, according to Article 102 TFEU, that entity is barred from 'making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts'. In the various EU Member States, the national provisions governing the abuse of a dominant position more or less resemble the rule in the Treaty. However, neither the general and rather clear provision nor the famous EU competition law cases against *Microsoft* and others seem to have managed to settle the discussion or end the practices in question.

[49]Swedish report, p. 12; Hungarian report, p. 7; Belgian report, p. 24; Romanian report, p. 12.

According to the Italian reporter, the questions about the provision of software as a service are highly contested at the moment. In a prominent case, the Italian Supreme Court limited the possibilities to bundle software and hardware by pre-installing certain programs and forcing customers to accept certain End-User License Agreements (EULA). The Court considered hardware and software to be 'two distinct and structurally divisible assets' and reasoned that since only the laptop was subject to the sales contract, the customer must not be forced to enter into an EULA. In France, tied sales or bundling are generally permitted unless these practices constitute an unfair commercial practice as defined by the Consumer Code.[50] The Brazilian report also mentions limitations to the bundling of goods, both rooted in anti-trust and consumer protection law.

The relevant difference between limitations to the bundling of goods and (ongoing) services is the scope of these restrictions. While the competition law approach, depending on the specificities of the jurisdiction in question, at least requires a significant market share and other indications of dominance, a consumer protection approach does not. Instead, again depending on the jurisdiction in question, a consumer protection approach due to the nature of its scope divides the market into consumers and non-consumers in an area in which it is very unclear whether the negative effects of the practice in question only concern consumers.

## 14.7 Competition Law and the Abuse of Intellectual Property Rights

The relationship between intellectual property rights, including brand names as trademarks, on the one hand, and anti-trust or competition law, on the other hand, is complicated, to say the least. The very purpose of IP rights is to create absolute rights that specifically allow for the exclusion of others, including competitors. Finding the right balance between protecting the legitimate interests of owners of IP and protecting those of competitors or actors in any downstream or secondary market is crucial.

In the EU, competition law limits the exclusion of others based on IP rights by forbidding the abuse of a dominant position even as far as it relates to the exercise of IP rights. The balance is defined by Article 101 and Article 102 TFEU. Any agreement or unilateral act with the aim or effect to limit competition, especially the refusal to deal, can potentially violate these standards.[51] However, ECJ case law suggests that the mere holding of an intellectual property right in itself is not sufficient to establish a dominant position. Rather, additional factors going beyond what is owed to the nature of IP rights are necessary to establish a dominant position or the conditions for the essential facility doctrine. It is important to note that even though the treaties do not formally distinguish between essential facilities and

[50] French report, p. 15.

[51] Romanian report, p. 19.

dominant positions, especially in relation to the abuse of IP rights, there is a significant practical difference between the obligations resulting from a dominant position and the control over an essential facility: where the former mainly establishes a non-discrimination standard as regards granting access to goods or services that are generally sold or provided to the public, the latter may force the controller to open a facility that it previously reserved to itself and potentially might even be obliged to expand the facility in accordance with users' needs.

Brazilian Antitrust Law specifically refers to the violations of the economic order 'to monopolize or prevent the exploitation of industrial or intellectual property rights or technology' or 'to abusively exercise or exploit intellectual or industrial property rights, technology or trademark'.[52] It is remarkable that in certain jurisdictions, the default assumption is shaped by the notion that the exclusionary effect of IP rights is deeply rooted in their nature and only to be considered abusive in certain extraordinary circumstances. In other jurisdictions, however, exclusionary acts based on IP rights even serve as an example of abusive conduct.

The French report specifically refers to the major role that IP rights play in the assessment of market power within the European and national rules governing mergers and acquisition. The French report also points at an ongoing discussion of the notion of an 'essential brand' in parallel to the long-established rules around essential facilities. The concept above would address situations in which competitors or other downstream providers depend on the access to branded goods or services or the usage of the brand as such.

The Swedish Market Court decided that a model calculating the appropriate compensation for music can amount to the abuse of a dominant position where it discriminates against certain market participants. The Swedish report further points out that high levels of regulations, such as those relating to the display of trademarks of tobacco products, can justify otherwise abusive restrictions on marketing.

## 14.8 Protecting Brands Using Unfair Competition Law

Apart from relying on IP rights directly, IP right holders can also use the safeguards of unfair competition law or provisions concerning the integrity of competition in other areas of law to protect their brands against direct competitors and on secondary markets. The Belgian report states that according to the jurisdiction of the Belgian Court of Cassation, third parties can be liable for complicity to the breach of a valid license. The report further notes that the infringement of existing IP rights can be deemed parasitic competition, yet to establish such behaviour, additional conditions beyond the infringement itself must be met. Similar standards can be found in Switzerland, Spain and France.

The interests of the holder of intellectual property rights relate not only to the direct control over the products and their distribution but also to claims about these

[52]Brazilian report, p. 8.

products. In this regard, the Swedish report emphasises that comparative advertisement *per se* is legal in Sweden. However, the law does prohibit practices that would be considered unfair. The prohibited types of behaviours include misleading imitations and stand independently from IP infringements as such. This double standard stems from the fact that originally there was a strict distinction between IP and marketing law in the Swedish legal system, which was reflected by separate procedural competencies. This distinction was given up, and it remains to be seen what consequences this change brings about. The French and German laws allows for comparative advertising as such practices are perceived to further the informational interests of consumers. In Germany, when considering the lawfulness of comparative advertising, apart from the truthfulness of factual claims, the likelihood of consumer confusion is duly taken into account.[53]

## 14.9 Protecting Brands by Technical or Factual Behaviour

Contractual limitations or a denial of service is not the only route perused by IP right holders to protect their brands or exert power over secondary markets. The French report accounts for a case in which *Nespresso*, the manufacturer of coffee machines and capsules, was accused of deliberately modifying machines so that they would be incompatible with capsules offered by third-party providers. *Nespresso* was said to have complemented this technical approach to excluding competitors on a secondary market with potentially misleading descriptions of the incompatibility in the manual.[54] However, the French report clarifies that this case is an exception and that generally the competition authorities accept justifications of exclusionary behaviour as it relates to the quality or safety of products.

## 14.10 Consumer Protection

It can be concluded that in most jurisdictions, the relevant consumer protection standards stem from specific legislation and not the respective Constitution directly. There are two exceptions in this regard: the Hungarian Constitution specifically recognises consumers' rights in the Fundamental Law. Not least because of a reluctance of Hungarian courts to practically apply the provisions of the Fundamental Law directly, these consumer rights are rarely referenced in consumer protection cases. The Spanish Constitution obliges public authorities to take effective measures to protect consumers. That said, many jurisdictions recognise consumer protection as a legitimate government interest that may or even must be taken into account when balancing the interests involved. In some jurisdictions, consumer protection is interpreted into existing constitutional guarantees such as social rights. The French

[53]Higher Regional Court, Frankfurt am Main, decision of 22 September 2016, ref. 6 U 103/15.
[54]French report, p. 5.

Constitutional Council, for example, has invoked consumer rights as part of the public interest and held that property rights can be limited to ensure fairness of commercial transactions and to defend consumer interests. Consumer rights are also regularly invoked by the Romanian Constitutional Court in decisions confirming the constitutionality of statutory provisions aimed at consumer protection. On the EU level, consumer protection is explicitly mentioned in the treaties as a value to be taken into account. The practically determining standards of consumer protection and the specificities, however, are almost exclusively defined in secondary legislation. Within the EU, consumer protection is governed both by EU and national legislation and case law. The level of consumer protection is generally perceived to be rather high—at least in theoretical terms. The Swedish report points out that, traditionally, consumer policies were based on negotiations between industrial players and supervisory authorities and heavily relied on self-regulation. The Spanish mentions public and private laws in place for the enforcement of consumer protection, as well as mechanisms for self-regulation.

While the burden of proof for the violations of consumer rights by and in large follows general rules and, therefore, lies with the plaintiff, the reports identified various situations in which the burden of proof for consumers is (partly) reversed. Italian law, for example, contains a reversal of the burden of proof in cases of violations of competition law: where the Competition and Market Authority sanctions an undertaking, a consumer may use this sanction as evidence of unlawful conduct against her when claiming damages in a subsequent proceeding. In Hungary, at the request of the competent authority, a business entity must 'provide proof to verify the authenticity of any fact comprising its commercial practices' in relation to violations of consumer interests.

## 14.11 Balancing Consumer Interests

Finding the right balance between the interests of consumers and the interests of holders of intellectual property rights, first and foremost, is a question of policy and fundamental beliefs on the right and just design of the economic system and its functions. However, apart from this very general and abstract question, every case concerning the limitations of holders of intellectual property rights in protecting their brands includes a balancing of consumer interests. Especially since most of the legal provisions relevant to the issues covered in this report are standard and not rule-based, the element of weighing the interests concerned is the decisive factor. In most jurisdictions, the margin of appreciation that is left with the judiciary is significant. The specific rules set forth by the legislature are only insular.

The dependence on case law is especially high in the area of competition and antitrust law. While in all jurisdictions the degree of codification seems to be higher in the area of unfair competition law, the relevant determinations, by and large, are still based on the circumstances of the behaviour in the individual case and hardly predictable. The Romanian report emphasises to that extent that due to a lack of general priority of consumer interests, a case-by-case assessment of the interests at stake is inevitable and refers to the context of avoiding consumer confusion as an aspect of trademark law.

In all jurisdictions, consumer protection is considered an important value that significantly influences the jurisdiction of the courts and the practices of the competent authorities. The degree to which consumer protection is recognised as a valid interest in competition law, both in anti-trust in the narrow sense and in unfair competition law, varies greatly, and so does the interpretation of consumer welfare. In France, consumer interests are explicitly taken into account and interpreted rather broadly, and the combination of competition law and specific consumer law is perceived as effective. Italian law is described as being open to the consideration of consumer interests as well, especially as the lawfulness of competitive behaviour to a large extent is based on a consumer perspective. This becomes especially obvious in relation to potentially misleading information. The Hungarian Trademark Act directly references consumer interests by denying protection to trademarks that may be misleading or confusing to consumers as regards the quality or geographical origin of goods or services.

French law includes far-reaching restrictions of the rights and freedoms of trademark owners where the public health is at stake. Examples include a ban on tobacco advertising and the regulation of advertising concerning alcohol, medicines or cosmetics. The balance of consumer interests with the rights of the holders of intellectual property rights is perceived to be proportionate.

The Brazilian report mentions the existence of a presumption of consumer vulnerability and deduces a general priority of consumer interests. The report differentiates between the offline and the online markets and sees an appropriate balance only in the offline market. Concerning digital goods and online distribution, the report points out that crucial aspects of consumer protection are lacking. So far, the report specifically refers to the absence of duties to upgrade software and reasons that the judiciary still does not appropriately recognise the importance of digital goods. The Czech report points at a priority of consumer interests in case law concerning misleading and incomplete information.

The Brazilian report also concludes that consumer protection is at the core of the balancing of interests in anti-trust law as the law aims at increasing consumer welfare, and the reporter considers the combination of anti-trust and specific consumer protection rules to strike a fair balance of interests. The German Law Against Unfair Competition mentions consumer protection as one of its core purposes. The same holds true for Austrian and Czech laws.

In Hungary and Romania, courts seem to be more reluctant to directly take consumer interests into consideration. However, in Romania, there seems to be an exception in cases in which the competition authority has specifically pointed out potential negative effects on consumers.

With the exception of the Spanish report, which points out possibly unbalanced results with regard to consumer interests, the classic economic approach in anti-trust and competition law in the narrow sense seems to be perceived as sufficient to safeguard consumer rights. Whether that is true in the context of giant e-commerce and communication platforms needs to be discussed further.

## LIDC Resolution

Whereas recent developments have challenged the abilities of holders of intellectual property rights to manage and control their distribution channels to protect their brands;

whereas brand owners face practical difficulties relating to the enforcement of their IP rights, such as trademarks, design rights, copyright, patents;

whereas a constant increase in the significance of digital products and online distribution channels of physical goods can be observed;

whereas there is a need for effective consumer protection in on- and offline distribution channels;

whereas there is a general trend towards a higher degree of centralization and economic concentration in relation to online platforms;

whereas supply chains are adapting to the challenges of the digital economy;

whereas the protection of the public image of a brand, and thus the assurance of quality standards and safety, is widely recognized as a legitimate interest of the trademark holder;

whereas environmental sustainability and the circular economy are gaining importance in the context of the definition of consumer rights;

the LIDC recommends the following:

Legislators and courts should take into account the interests of holders of intellectual property rights in protecting their brands and the interests of consumers and the sustainability of the economy.

The conditions under which selective distribution networks are compatible with competition law should allow for the proper balancing of interests in individual cases based on the economic effects of the practice in question.

The critical role in the distribution of products enjoyed by online platforms warrants further examination. Even within the classic consumer welfare centered approach to anti-trust and competition law, courts and authorities should pay attention to the long-term risks to consumers, merchants, and manufacturers entailed by concentrations of economic power.

Due consideration should be given to potential lock-in effects by warranties tying consumers to partners of IP right holders.

Efforts to understand the conditions for the exercise and exhaustion of IP rights, such as trademarks and the applicability of the first sale doctrine to digital goods, should be continued.

When considering exclusive IP rights, competition and anti-trust law should incorporate consumers' and IP rights holders' interests at all levels.

Holders of trademark rights should be allowed, within reasonable limits and subject to strict limitations, to protect their brand image and, thereby, the value of their brand by setting conditions for the distribution of goods, especially to the extent that those conditions relate to the quality of goods and services and are compatible with the public interest.

# Austria

# 15

Andrea Zinober

## 15.1 Introduction

Intellectual property is protected in Austria under national Trademark Law, under Competition Law, as well as under Copyright, Patent and Design Law. For the purpose of this report, only Trademark and Copyright Law aspects and, where appropriate, Competition Law aspects, will be considered. From a constitutional law aspect, in particular, trademark rights enjoy legal protection as fundamental rights. The European Convention for the Protection of Human Rights and Fundamental Freedoms, ratified by Austria on 16 April 1965, provides in its 1st Additional Protocol for the right to the peaceful enjoyment of one's possessions. Furthermore, the Austrian Fundamental Rights Act[1] states that all property shall be inviolable. All private rights with an economic value fall under the definition of property, as it is interpreted by the constitutional court. Those rights are protected against expropriation and are also invoked from time to time in court. However, the argument of expropriation is often raised in the context of infringement cases by trademark owners whose rights are challenged. They try to defend their trademark by arguing that a court order to refrain from its use would result in such 'expropriation' and thereby infringe their constitutional rights.

[1] Staatsgrundgesetz, Art 5 Staatsgrundgesetz vom 21. December 1867, über die allgemeinen Rechte der Staatsbürger für die im Reichsrathe vertretenen Königreiche und Länder, StF: RGBl. Nr. 142/1867, idgF BGBl. Nr. 684/1988.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_15

## 15.2 Scope of Legal Protection of Intellectual Property Rights

### 15.2.1 Principles on Trademarks in Austrian Law

Trademarks under the Austrian Trademark Protection Act[2] are absolute and exclusive rights; they are effective against any third party. However, like European Union Trademarks, Austrian trademark rights only exist upon their registration with the national authority, the Austrian Patent Office. On account of their registration, they enjoy the priority of the application date and may be held against any other younger trademark. Once the trademark is registered, its protection is granted independently from the intensity of its use, the value of the brand or a certain level of recognition. Such considerations will only be relevant if the trademark is subject to an application for cancellation from the trademark register based on non-use over 5 years. Trademark owners are protected under Section 10 of the Austrian Trademark Protection Act against use of the same sign for identical or similar goods and services and use of similar signs for similar goods and services, provided that there is a likelihood of confusion for the public, including the likelihood of association. Whether the signs are similar is to be analysed by the courts and the patent office upon the information in the register, independent of the actual use.[3] Relevant likelihood of confusion is determined by a community-wide, uniform standard based on the decisions of the ECJ. Infringements of trademark rights entitle the owner under the Austrian Trademark Protection Act to actions for injunction, removal, compensation, damages and earnings before the civil courts. The Austrian Trademark Protection Act also provides for criminal actions for trademark infringements. Such criminal actions are only instituted upon the request of the trademark owner, who acts in the role of the State Attorney. These provisions are hardly ever invoked since the criminal proceedings bear the financial risk for the applicant to cover the full costs of the proceedings in case they do not end with a conviction of the defendant.

Unregistered intellectual property rights, such as copyrights and signs, names and firm names of undertakings, are also protected by law.

Copyrights are subject to the Copyright Act and to their qualification as a work of art or literature but not to any registration. Austrian Copyright Law protects the moral, immaterial interest of the author; its personality rights; as well as economic and financial rights. While personal rights, like the right of ownership, cannot be transferred to a third party, the economic rights derived from that work, as for publication, broadcasting, public performance or translation, may be transferred entirely or partly and thereby constitute a considerable economic value. Infringements of such rights are subject to actions for injunction, removal, compensation, damages and earnings.

[2] Markenschutzgesetz 1970, BGBl 260/1970, idgF BGBl I 14/2017.

[3] OLG Wien 34 R 89/15f, Opposition Procedure EIN LÄCHELN SCHENKEN / ICH SCHENK DIR EIN LÄCHELN.

Unregistered signs of undertakings are subject to the Unfair Competition Act. Unregistered signs of undertakings are protected against 'abuse of signs of another undertaking'. Signs, such as firm names, are protected against use by third parties, provided that they are confusingly similar. Since firm names are registered in the firm book, the fact of their use and existence may easily be proven in court. The owner of the prior firm rights may file a court claim for an injunction to prevent any other party from using a confusingly similar firm name. Such injunctions may be executed and are therefore very effective means of protection for undertakings and their valuable firm names, which serve as an important means of identification.

In addition, the Act on Undertakings[4] provides that any new firm shall be sufficiently different from those already existing at the same place or the same municipality. This rule does therefore not prevent the registration of similar firms in different places or municipalities.

Unregistered signs, used for products or services—like the packaging of products or certain colours used for the clothing of employees or similar elements of corporate identity—fulfil functions similar to registered trademarks. They indicate the origin of the product from a certain undertaking, they are distinctive and they do function as advertising tools. In case they also enjoy certain recognition, their owners are entitled to invoke them against third parties that use confusingly similar signs.

As a matter of fact, most undertakings already combine advertising and/or distribution of its products and services on- and offline. While some services, like car repairs, cannot be carried out online, they may well be advertised online. On the other hand, many products may be advertised, offered and distributed via both channels. Infringements of intellectual property rights often become known to the trademark owner because of online advertising. Trademarks and signs are used on websites to offer products and services. Courts in Austria generally accept evidence provided by trademark and other intellectual rights owners when defending their rights such as printouts from web pages, screenshots of online advertising on social media channels and photographs from shops and workshops. In any case, the use of a trademark or sign or its infringement, respectively, is not dependent on the type of distribution. Infringements online are as relevant as offline.

### 15.2.2 Use of Trademarks and Legal Implications

The Austrian Trademark Protection Act always allowed third parties to use registered trademarks in order to inform the relevant consumers about their own products and services, but under specific limitations. In cases like 'Ford-Spezialwerkstätte'[5] and 'Mercedes-Teyrowsky',[6] an infringement of the exclusive

[4]Bundesgesetz über besondere zivilrechtliche Vorschriften für Unternehmen (Unternehmensgesetzbuch—UGB), BGBl I 2005/120, section 29.

[5]OGH 23.4.1985, 4 Ob 391/8, 'Ford-Spezialwerkstätte'.

[6]OGH 29.9.1992, 4 Ob 66, 'MERCEDES-Teyrowsky'.

right of the trademark owner was only assumed if the way of use of the brand created the impression of a certain contractual or organisational relationship between the trademark owner and the third party that did not exist. While it was considered lawful to indicate a certain specialisation for repairs of vehicles of a specific brand or to indicate the distribution of certain products, as in the case of 'Kärcher',[7] the use of a registered trademark on any commercial information as part of the firm name or on letterheads was unlawful. These long-established principles are continued today in the harmonised Austrian Trademark Protection Act, and Austrian courts take their decisions in the light of ECJ case law. The use of a trademark as an indication of the intended purpose of a product has to be the only means of providing the public with comprehensible and complete information on that intended purpose. The use of the trademark shall be in line with the honest practices in industrial and commercial matters.[8] This was, for example, not held to be the case for a producer of windows, who indicated that his products were able to replace products of a certain brand,[9] VELUX. The use of this brand was not necessary to indicate replaceability since also windows of other producers and other brands that were not as well known as Velux could be replaced. Use of this brand was considered an act of unfair competition. Therefore, the use of the trademark constituted an infringement of the trademark rights.

With regard to accessories and spare parts, repair and service markets, the possibility of lawful use of a trademark by third parties is of particular importance. On the one hand, there is a legitimate interest of the trademark owner to protect its brands and preserve its value; on the other hand, there is a legitimate interest of the owner of an independent business that needs to market its products and services. However, the criteria for a legitimate use of a trademark by a third party for accessories and spare parts are the same as for other kinds of indication of the intended purpose. Competition law aspects are always to be considered in this context, as well as antitrust rules, like Block Exemption Regulations for specific sectors.[10] While independent repair shops in the after-sales market for motor vehicles need to be supplied with original spare parts of the producer and technical information, they are considered like any other third party with regard to the use of protected trademarks. Advertising slogans like 'independent multiple-brands workshop, independent, competent, fair' in combination with using the registered device trademarks of a vehicle producer is not considered to be justified by the fact that the third party sells spare parts as a reseller, particularly with regard to the fact that the third party used the slogan and device trademark for the advertising of its own

[7]OGH 12.8.1996, 4 Ob 2137/96k.

[8]ECJ, case C-228/03, Gilette Company and Gilette Group Finland, ECLI:EU:C:2005:177.

[9]OGH 23.3.2011 17 Ob 2/11k, Velux.

[10]Regulation 461/2010 of the Commission of 27 May 2010 (Block Exemption Regulation for the Motor Vehicle Sector).

services and thereby created the wrong impression of an existing contractual relationship with the trademark owner.[11]

### 15.2.3 Geo-blocking

Since all national Austrian legislation as such and also copyright legislation only extends its effects on the national territory, it may be considered per se geo-blocking. With regard to national Austrian case law, there is always a European law aspect involved. For example, the Austrian Association for Consumer Information brought an action against a German railway company that requests a German domicile for customers to use SEPA payment. The Austrian Supreme Court asked the Court of Justice of the European Union for a preliminary ruling[12] on whether the SEPA Regulation prevents the prerequisite of a domicile of the payer to be in the same Member State as the receiver of the payment in case also other means of payment, such as credit cards, may be used. In its summary on the case, the Austrian Supreme Court refers to the Geo-Blocking Regulation[13] as a supportive argument. This Regulation provides in Article 8 for a body to support consumers in cases of disputes between consumers and providers. It is to be expected that the applicant in this court action, the Association for Consumer Information, will be that body, although to date no public information was issued.

### 15.2.4 Brand Protection on e-Commerce Platforms

The judgement of the Court in the *Coty*[14] case on the use of registered trademark was discussed in Austrian legal literature, as in many other countries. So far, neither specific national implications nor changes in the daily business could be seen.

### 15.2.5 De-compilation

Computer programs are protected as a specific kind of work under the Austrian Copy Right Act.[15] The only condition for their protection is that they have to be the result

[11]HG Wien 11 CG 54/17d, Fiat.

[12]OGH 20.12.2017, 10 Ob 36/17t.

[13]Regulation 2018/302 of the European Parliament and of the Council of 28 February 2018 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market and amending Regulations (EC) No 2006/2004 and (EU) 2017/2394 and Directive 2009/22/EC, OJ 2018 L 60I p. 1.

[14]CJEU, case C-230/16, Coty Germany GmbH v Parfümerie Akzente GmbH, ECLI:EU:C:2017:941.

[15]Copy Right Act, BGBl 1936/ idF 2015/11, sections 40a–40h.

of the author's own intellectual creation. By implementing Directive 91/250/EEC, a specific provision on de-compilation was inserted in the Copy Right Act. It has been in force since 1 March 1993, which is more than 15 years now. Its practical relevance is, however, negligible. Not even one single court decision referring to it was published on the official electronic database provided by the Ministry of Digitalisation and Economic Location[16] or commented in legal literature. The provision provides that the code of a computer program may be legally reproduced and its code form translated under a strict set of conditions. The act of de-compilation shall be lawful under the following conditions:

1. it shall be indispensable to achieve interoperability with an independently created computer program;
2. it shall be executed by a person making legal use, meaning to have a right to use a copy of the program;
3. the necessary information are not yet otherwise accessible; and
4. those acts are confined to those parts of the original program that are necessary to achieve interoperability.

However, this provision does not provide for a cost-free right to de-compilation, so it may be subject to a financial compensation. It may also be used in a program that is considered a competitive product, as long as it was developed in parallel and independently. A full implementation, and therefore an infringement of authors' copyrights, shall not be covered by this provision. The reason for the minor relevance of this provision may be that, on the one hand, necessary interface information is made publicly available in order to avoid possible antitrust law implications and, on the other hand, the authors of the existing program may be addressed and the necessary interface information may be supplied in order to prevent an otherwise possible de-compilation.

## 15.3 Limitations of Legal Protection

### 15.3.1 Exhaustion of Trademarks

The Austrian Trademark Protection Act provides in its Article 10b for the exhaustion of rights of the trademark owner once the goods were brought in the course of trade by the trademark owner or with his consent within the European Economic Area. An exemption to this principle is provided for in Article 10 b (2) if there is a legitimate interest of the trademark owner to oppose to such commercialisation, if the goods were altered or deteriorated after they were brought in the course of trade.

The principle of exhaustion of trademark rights is a long-established rule observed for more than 20 years. Before being codified based on the Trademark

[16] www.ris.bka.gv.at.

Law Directive, the principle was already applied by Austrian courts. Once the trademark owner brings the goods or services in the course of trade, he cannot oppose its further commercialisation. The functions of the trademark, namely to provide for the origin and guarantee of a trademark, are not affected by further commercialisation; they are rather to be expected by the trademark owner. Any retailer will necessarily further commercialise and sell the goods brought in the course of trade by the trademark owner. As long as a retailer makes clear that he offers and brings into the course of trade original goods, which were repaired or refurbished, and as long as he does not create the wrong impression to market the new original goods, the interest of the trademark owner is not affected. Any stricter interpretation would entirely prevent an after-sales market, for both repaired and refurbished goods. This effect would not be consistent with the principle of exhaustion.[17] As regards an after-sales market and a right of repair, repair shops in the after-sales market for motor vehicles shall be supplied with the original spare parts of the producer and technical information in order to allow a technically correct service offered by third parties. However, the cost-free warranties of producers may be legally bound to repairs by authorised workshops.

### 15.3.2 Geographical Scope

With regard to the territory of goods in the course of trade, the Austrian Supreme Court decided that such goods in free-port zones do not yet constitute an import of such goods, even if they may be physically in the area of the common market. This clarification became necessary since decisions of lower courts were appealed; they had expressed their interpretation that goods in free-port zones are not considered foreign or extraterritorial areas, and therefore even their storage with the intent to export them afterwards to non-EU countries would fall under national rules for exhaustion.[18]

While those cases do not occur any longer, recently territorial aspects of trademark exhaustion and unfair competition issues had to be analysed. The Austrian Supreme Court decided that rules binding the licensee with respect to resale in certain territories or to certain customers are only effective *inter partes*. Such restrictions may not prevent the exhaustion of the trademark owners' rights. A third party that utilises such infringement of a licence contract in its own interest does not automatically act unfairly under the Unfair Competition Act, unless it actively contributed or promoted it. A third party that removed stickers 'not intended for the internet sale in Austria' and marketed the products in Austria without them does—particularly as a discounter obviously offering several different brands—not

[17]OGH 8.11.1994, 4 Ob 133/94.

[18]OGH 14.6.2006, 13 Os 39/06v.

create the impression of being an authorised distribution partner of the trademark owner.[19]

While in this case it was undisputed that the goods were brought in the course of trade by the trademark owner itself, such arguments on the first placing on the market were often disputed.

### 15.3.3 Burden of Proof

Article 10b) Trademark Protection Act does not provide for any procedural rule on the burden of proof on the place the goods were brought into commerce; the courts had to establish such rules. In the earlier cases, the Austrian Supreme Court held that the applicant had to argue and bring evidence for the exhaustion of the trademark right[20]; however, the proof and existence of distribution systems and their impenetrability were considered sufficient. Since the Austrian Supreme Court held that such tight distribution systems bear the risk of market foreclosure, their existence alone was not considered to be sufficient. With regard to mass products, which are brought into commerce within the EEA, as well as outside this territory by the trademark owner, the Court even considered the interest of the public in the prevention of such market foreclosure, based on primary law, higher than the protection of the trademark owner's not yet exhausted rights.

The Austrian Supreme Court established as a principle that the defendant has to argue and bring evidence for the exhaustion of the applicant's trademark rights, unless the defendant proves that revealing his source of supply would threaten a market foreclosure. In such case, the trademark owner itself will have to argue and bring evidence the products were brought on the market outside the territory of the European Economic Area.[21]

In its more recent decisions, the Supreme Court referred to this established jurisprudence, and in a case where the defendant did not invoke such a threat of a market foreclosure, the burden of proof for an exhaustion lay upon it. They, however, only argued that the trademark owner would make misuse of his trademark rights. Generally speaking, such misuse of trademark rights may occur in two cases. Either the only reason for making use of the right lies in the intention to damage and harm or there is a gross discrepancy between the interest of the trademark owner and the other party. Since in principle it is to be assumed that a right owner acts within the limitations of this right, even minor doubts are considered sufficient to prevent the assumption of a misuse. In the course of this decision, the Supreme Court made clear that there is no general duty of the trademark owner to make his distribution channels known. Defendants could have easily relied on their own suppliers to obtain information about the origin of the products. In case of missing or unclear

[19] OGH 16.06.2015, 4 Ob 84/15d, 'Internetsale'.
[20] OGH 4 Ob 29/00v.
[21] OGH 22.9.2009, 17 Ob 16/09s, 'Diesel'.

information, they acted on their own risk when reselling the goods. Since defendants never argued that such a request was placed or the information was refused, the Court concluded that no misuse of trademark rights could be established.[22]

### 15.3.4 Digital Goods

While Austrian national jurisdiction with regard to the exhaustion of trademark rights has a long-established history, this does not apply to the exhaustion of copyrights. Nonetheless, the Austrian Copy Right Act contains in its Article 16 (3) and Article 16a (1) and (2) a similar rule. Once the author has sold the property within the European Economic Area, his distribution rights are exhausted. However, the exhaustion does not apply in cases of leasing of the workpiece and shall apply to the rentals only with consideration of the fact whether the author obtained an adequate remuneration.

These aspects consider that any secondary market depends on the principle of exhaustion. Otherwise, the right holder could prevent any further sale by licence agreements. The question on the general lawfulness of trade with used software was intensively discussed in Austria already before the decision in the UsedSoft cases by the ECJ.[23] In the aftermath of these decisions, it is now clear that standard clauses in licence agreements prohibiting any sub-licence or transfer of the right are too strict and will be considered invalid. However, the first owner shall make sure that the holder of the rights will receive remuneration from the next owner and make sure the right to use is not multiplied because the first owner's right to use expires and cannot be exercised any more.

An interesting detail lies in the provision of the Austrian Copy Right Act with regard to university and school use. Schools and universities may use paper copies for the purpose of teaching and education in the justified extent. The use shall be made only for non-commercial purposes and shall not cover works that are intended to be used for teaching and education according to their appearance and labelling. This last exemption refers to schoolbooks and educational books. They are subject to a complex system of production and distribution by publishing companies. The content of school books is subject to a prior approbation by the competent ministry. Such works are subject to copyrights, authors are remunerated by publishing companies and prices for such educational books are subject to regulations. If it were not for the exemption, schoolbooks could be copied freely to the detriment of the authors, the publishing houses and the entire schoolbook system. However, legal uncertainties result from the different concepts of 'public'. While the Austrian Supreme Court considered that a film shown in a classroom was public reproduction, when shown in compulsory schools, it is uncertain what concept of public would be applicable to other institutions. When speaking of colleges for higher education with

[22]OGH 27.08.2013, 4 Ob 122/13i.

[23]CJEU, case C-128/11, UsedSoft GmbH v Oracle International Corp., ECLI:EU:C:2012:407.

a limited number of admitted students, one may address a rather restricted public but may address a larger public when thinking of universities offering public access.

E-learning platforms with controlled access by login name are considered to be exempt from the author's exclusive right of making publicly available under Article 18a Copy Right Act since the minimum threshold for 'public'—all too small public of even inconsiderable majority of people—as expressed by the ECJ, seems not to be met.[24]

## 15.4 Balance of Interest: IP Right Owners/Consumers

### 15.4.1 Protection of Consumer's Rights

The Austrian legal system provides for the protection of individual rights on different legal bases. The oldest goes back to the year 1867, the Austrian Fundamental Rights Act.[25] It contains a complete catalogue of fundamental rights like the principle of equality, the right to free movement, the right to private property, the right to privacy, the right to the inviolability of privacy in its own house, freedom of public assembly and formation of associations, the right to free religious belief, freedom of education and science, freedom of artistic creation and free choice of education. Further, the European Convention of Human Rights and some of the Additional Protocols,[26] as well as the Charter of Fundamental Rights of the EU, provide for the protection of individual rights in Austria. Under Austrian national law, nothing comparable to Article 38 of the Charter of Fundamental Rights of the EU,[27] which provides that 'Union policies shall ensure a high level of consumer protection', exists.

Some fundamental rights in Austria are considered to be provided not exclusively to natural persons but also to undertakings in the form of juridical persons. This makes sense for the right to property, or data protection, but naturally does not refer to consumers rights. Under Article 1 of the Consumer Protection Act, the protection is provided for consumers. The Consumer Protection Act defines as consumers those for whom the relevant business transaction does not belong to the operation of a business.

Some constitutional rights may be invoked not only against the state but also against other individuals. This is the case, for example, for the property right. The constitutional court's jurisdiction is very clear on that over centuries. However, there are also fundamental rights explicitly conferred to juridical persons. The right of data

[24]P. Maier, Urheberrechtliche Öffentlichkeit und elektronische Lernplattformen, jusIT 2014/57.

[25]Staatsgrundgesetz, Art 5 Staatsgrundgesetz vom 21. December 1867, über die allgemeinen Rechte der Staatsbürger für die im Reichsrathe vertretenen Königreiche und Länder, StF: RGBl. Nr. 142/1867, idgF BGBl. Nr. 684/1988.

[26]ECHR in force since 1958; Protocolls Nr 1, 4, 10.

[27]OJ 2000, C 364, p. 1.

protection in Article 1 Data Protection Act provides for the right to privacy, which is granted to 'everybody'. This right is explicitly conferred on a constitutional level; it is conferred to natural and juridical persons and can be invoked against third parties, namely those who process the person's data. Of course, this lies in the right itself since data processing is done not only by the state but at least to a comparable extent by undertakings. Only providing protection against public bodies would result in only very limited level of protection.

In any case, the level of consumer protection in Austria is quite high. Consumer rights are laid down in the Act on Consumer's Protection and in numerous Acts implementing EU directives, such as the Act on Consumer Credits, the Act on Protection of Security of Foodstuffs and Consumers Protection,[28] and also in some laws with a different background. For example, even the Act on the Austrian Broadcasting Company contains a provision that explicitly provides for the protection of consumers' interest from misleading advertising.[29]

### 15.4.2 Consumer Rights and European Law

Even if there is no explicit national constitutional right to consumer protection, Article 38 of the ECFR finds its way to national jurisdiction. This was the case in a decision of the Austria Constitutional Court brought by a funeral parlour.[30] It was addressed against consumers' right to withdraw from a contract that it entered into via telecommunication outside the business premises of the undertaking. This right of withdrawal in national legislation is based on EU Directive on consumer rights[31]; the national constitutional court had to decide whether this possibility for the consumer infringed the national fundamental principle of equality, the right to property and the freedom to conduct a business. The applicant argued that in a funeral business, the contract is mostly entered into based on an offer that the customer itself makes over the telephone. Relatives of the deceased call the funeral undertaking and ask to come for the corpse. Given that specific situation, to give the full information to the customer about a right to withdraw from the contract was argued to be very difficult and a bit bizarre. In case the undertaking does not fully provide this information, the consequences by law is the right to withdrawal, however without having to pay or reimburse the funeral undertaker for the loss or destruction of the coffin, which might have taken place in the meantime. In the opinion of the applicant, this result would constitute an infringement of constitutional rights and freedoms of equality, right to property and freedom to conduct a business. The constitutional court admitted the compliant; it did not see any

[28]Lebensmittelsicherheits- und Verbraucherschutzgesetz—LMSVG, BGBl. I Nr. 13/2006, idgF BGBl. I Nr 51/2017.

[29]Section 13 Abs 3 Zif 6 ORF Gesetz, BGBl 379/1984, idgF BGBl. I. Nr 32/2018.

[30]VfGH, 12.10.2017, G 52/2016.

[31]Directive 2011/83.

necessity for a preliminary ruling by the CJEU but decided itself on the matter. In its reasoning, the Court pointed out three important reasons for its decision:

1. The national provisions fully implemented the EU Directive on consumer rights.
2. This Directive did not leave any possibilities for implementation, which the national law did not make use of.
3. The Constitutional Court did not have any doubts about the validity of the Directives' provisions.

Therefore, the Court held that a further examination of the attacked provisions as to their possible contradiction to the national constitutional rights invoked by the applicant was out of the question. By saying that, the Court clearly accepted the preference of the European Charter of Fundamental rights and the aim expressed in its Article 38.

### 15.4.3 Unfair Competition and Its relation to Consumer Rights

With regard to brand protection and consumer rights, relevant consumer interests are also implicitly considered in cases of unfair competition. A business practice that is misleading participants of the market falls under Article 1 and Article 2 Unfair Competition Act. Since also consumers are participants of the market, they enjoy protection from such misleading business practices. Also in matters of trademark protection where there exists a likelihood of confusion, it is a principal question whether there exists a likelihood of confusion on the part of the public. The term "consumers" is not explicitly mentioned, but of course they are the public. Both principles not only aim at protecting the competitors from unfair competition or from economic disadvantages caused by the use of a similar trademark by a competitor but also imply a certain level of protection for consumers. The National Austrian Unfair Competition Law, at least in the last century, was mostly considered as a set of rules to provide a certain level of good business practices, with the aim of a business environment following principles of fair competition. At least the implementation of the Directive on Unfair Competition Practices[32] brought some more consumer protection aspects into the Unfair Competition Act.

As a matter of fact, the Association on Consumer Information, an association set up and controlled by the competent Ministry of Consumer Protection, is one of the few associations that are explicitly entitled to file actions against undertakings based on the Unfair Competition Act. This right is set out in the Unfair Competition Act, while the right to file claims for the general terms and conditions used by undertakings and infringing consumers' rights is set out in the Act on Consumer Protection itself. The Association on Consumer Information is also entitled to file claims before the commercial courts against misleading business practices. As a

[32]Directive 2005/29/EC on Unfair Competition Practices.

result, the active legitimation of the Association on Consumer Information is very broad.

In general, at least following the perception of undertakings and attorneys defending them against these consumers' interest, the jurisprudence of Austrian courts, namely decisions by the Supreme Court or the Higher Regional Courts on cases of unfair competition, is generally very consumer friendly.

When assessing unfair competition practices and in particular misleading business practices, the Austrian jurisdiction also refers to the understanding of the average-informed and comprehensive consumer. This concept has also developed over time and been adapted to European legislation. Already before the implementation of the Directive on Unfair Competition, the examination of this understanding was considered a question of law, at least as long it could be answered by the courts based on day-to-day experience. Otherwise, it was a question of facts, open to evidence of the parties. Such evidence was not considered necessary in a case of advertising for pianos, claimed to be 'produced by' the defendant. This was an Austrian undertaking, existing for nearly 100 years. The advertising aimed at the general public and not only at musicians or professionals. In fact, the pianos were produced in China, by a Chinese undertaking, partly based on a model developed in Austria, partly on a model of the Chinese partner. The Austrian managing director controlled the production process once in a while in China. The understanding and perception of the public was extensively analysed by the Austrian Supreme Court in this decision.[33] It stated that while in decisions dating back 20 years the understanding of production was one of mere own production, 10 years back such advertising could be understood already differently under certain circumstances. More precisely, among experts, such understanding could refer to an own planning and quality control but a manufacturing process by third parties. The court also pointed out that it made a difference whether the products were marketed under a certain trademark or whether they were advertised as 'own products'. In the instant case, the defendant explicitly called its pianos own products, which excluded an understanding of production by a third party that also manufactures pianos of other brands. The Court also took into account the long tradition of the defendant in the production of pianos and held that this would even add to the economic decision of the public on a purchase of the products. It therefore concluded the false information of own production being a misleading business practice in the sense of the Unfair Competition Act.

However, the understanding of the public consumers may not only influence the business practice of consumers but may also have a direct impact on the existence of trademarks itself. In a case of non-use of a trademark, at least vis-à-vis the public, the trademark owner had to face a partial cancellation of its trademark.[34] The trademark 'Kornspitz' had been registered as a national Austrian trademark at the Austrian Patent Office. It enjoyed protection for flour and flour preparations, as well as for

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[33] OGH 08.04.2008, 4 Ob 42/08t.

[34] OLG Wien, 34 R 70/14k.

bakery products. While bakeries using the preparations distributed to them by the trademark owner were aware of the protected trademark, the end consumers were not. The trademark owner simply failed to make the sellers of the bakery products use the trademark. The Austrian Supreme Patent and Trademark Senate, which decided as a second instance on the Patent Office's decision, asked the ECJ for a preliminary ruling in this case.[35] The ECJ held that a trademark can be cancelled if it has become generic due to the failure of the trademark owner only in the perception of the final customer. It also held that the mere omission to make the sellers use the trademark could be seen as such a failure. In fact, the trademark owner had not provided any specific way of marketing or branding the final products. The Austrian Trademark Protection Act does not provide for the use of any sign, such as ®, in order to inform the public of the existence of a trademark. The Supreme Court did refer to the possibility to use such sign; however, it also referred to the lack of sponsorships or other means of marketing. The Supreme Court dismissed the argument by the trademark owner that information about the fact of the existence of a trademark could have been found in a dictionary or on Wikipedia. The court pointed out that it cannot be expected from consumers to check for such information in the case of the name of a bakery product, which can be seen and heard in everyday life and particularly if that term is used almost daily and already became common in everyday life.

## 15.5 Limitation for Trademark Owners

As a result, the level of protection for brand owners is not an absolute one. Third parties' rights to indicate the use of their own products, the principle of exhaustion and the very high level of protection of consumers do intrude from all sides to this protection shield. While European legislation over the past 20 years reached this high level of consumer protection, it seems worthwhile to strengthen the individual's understanding of general principles of economic interests and marketing mechanisms instead of continuingly patronising the public in general and the consumers in particular with the aim of confining protective legislative measures. The recent decision of the EU Court on trademark owners' rights to impose certain conditions for distribution to preserve the luxury image of their goods aims at the right direction. Overall, with an eye to the number of trademark applications filed not only with the European Office for Intellectual Property but also with the Austrian Patent Office, trademarks still are considered a real value and, of course, an interesting field of legal practice.

[35] CJEU, case C-409/12, Backaldrin Österreich The Kornspitz Company GmbH v Pfahnl Backmittel GmbH, ECLI:EU:C:2014:130.

# Belgium

# 16

Richard Steppe

## 16.1 Introduction

The principle of "exhaustion" is generally described as "the rule of first-sale, i.e. after the first sale or distribution of a right-related product by the right-holder, or with his consent, his right comes to an end, and he will not be entitled to stop the further use or distribution of the protected product in the market."[1] This notion curbs the wishes of intellectual property (henceforth: "IP") rightsholders across the European Union to exercise control throughout the distribution and after-sales processes, who could otherwise more efficiently price discriminate across territories and consumers. Nevertheless, containing various derogations and exceptions, the concept of exhaustion is not as broad as appears at first glance; hence, it still enables significant manoeuvring room for the IP rightsholder.

This report first describes the basic exhaustion principles within the European Union and Belgium, enlisting similarities and differences across various IP rights. The report then delves into the criteria for the application of exhaustion, as well as certain derogations and exceptions limiting the scope of applicability of the exhaustion doctrine, in the fields of trademark rights, patent rights, and copyright. Finally,

[1]S. K. Verma, Exhaustion of Intellectual Property Rights and Free Trade – Article 6 of the TRIPs Agreement, International Review of Industrial Property and Competition Law 1998 29(5), p. 537 (noting that "[e]xhaustion is not a contract issue, but is a doctrine which defines the limits of the intellectual property right itself, though, through contract, the ambit of the exhaustion can be curtailed by the intellectual property right owner, like fixing the re-sale price or the territory for sale").

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_16

throughout the paper, a *capita selecta* of issues is provided relating to reverse engineering, geo-blocking, right to repair, product liability, third-party complicity to breach of contract, and unfair commercial practices. This paper does not pretend to be exhaustive on the aforementioned topics but rather aims to highlight a series of elements relevant to the subject-matter of the 2018 LIDC Congress.

## 16.2 Exhaustion and Other Limitations of Legal Protection

### 16.2.1 Regional Exhaustion and Lack of International Exhaustion

The TRIPS Agreement remains silent on the question of exhaustion, submitting that "nothing in . . . [the] Agreement shall be used to address the issue of the exhaustion of intellectual property rights."[2] Following Fink, this is "widely interpreted as an agreement to disagree."[3] Other multilateral agreements, such as the WIPO Copyright Treaty[4] or the WIPO Performances and Phonograms Treaty,[5] contain similar language.

As a result, legal systems across the globe have adopted varied approaches to exhaustion. In systems of national exhaustion (as applied in, e.g., Brazil), rightsholders cannot prohibit resale within a country after having placed the product on the country's market; nonetheless, they may prevent parallel imports from foreign nations. Conversely, where international exhaustion is enforced (e.g., in the United States), rightsholders cannot oppose parallel imports from third countries subsequent to the product's first distribution. Finally, in frameworks of regional exhaustion, parallel trade is allowed in a group of legal systems, yet parallel imports from

[2]Article 6 of the Agreement on Trade-Related Aspects of Intellectual Property Rights of 15 April 1994 (henceforth: the "TRIPS Agreement"). Available at http://www.wipo.int/wipolex/en/other_treaties/text.jsp?file_id=305736. Accessed 8 July 2018. Note that this Agreement is applicable in a supranational EU context, see Agreement on Trade-Related Aspects of Intellectual Property Rights, OJ 1994 L 336, p. 214.

[3]C. Fink, Entering the Jungle of Intellectual Property Rights Exhaustion and Parallel Importation, In: Fink and Maskus (eds), Intellectual Property and Development – Lessons from Recent Economic Research World Bank, Oxford University Press 2005, p. 176. It should be observed that most favored nation and national treatment provisions, however, continue to apply. See C. Seville, EU Intellectual Property Law and Policy, Edward Elgar Publishing 2016, p. 111.

[4]In the WIPO Copyright Treaty, it is mentioned that "[n]othing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right [of distribution] in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author." See Article 6(2) of the WIPO Copyright Treaty of 20 December 1996 (henceforth: the "WCT"). Available at http://www.wipo.int/wipolex/en/treaties/text.jsp?file_id=295157. Accessed 8 July 2018.

[5]Articles 8 and 12 of the WIPO Performances and Phonograms Treaty contain highly similar clauses in the context of, respectively, the rights of distribution of a performer and of producers of phonograms. See the WIPO Performances and Phonograms Treaty of 20 December 1996 (henceforth: the "WPPT"). Available at http://www.wipo.int/wipolex/en/treaties/text.jsp?file_id=295477. Accessed 8 July 2018.

territories outside this region are precluded.[6] The principle of "regional exhaustion" is the one applied in the European Union, including Belgium.

Regional exhaustion was first established by the Court of Justice of the European Union (henceforth: the "CJEU" or the "Court") in *Deutsche Grammophon*. In the latter case, the Court held that the EU principle of the free movement of goods, as enshrined in Articles 34–36 of the Treaty on the Function of the European Union (henceforth the "TFEU"),[7] permits derogations on this freedom which safeguard rights constituting "the *specific subject-matter* of ... [industrial and intellectual] property."[8] This "specific subject-matter of intellectual property," although depending on the type, is generally meant to provide rightsholders with "protection of the right to exploit commercially the marketing or the making available of the protected subject-matter, by the grant of licences in return for payment of remuneration."[9] In any case, blocking parallel imports does not form part of this specific subject-matter.[10] The CJEU has often described exhaustion in a negative manner,

[6]C. Fink, Entering the Jungle of Intellectual Property Rights Exhaustion and Parallel Importation, In: Fink and Maskus (eds), Intellectual Property and Development – Lessons from Recent Economic Research World Bank, Oxford University Press 2005, p. 171. For an overview, see W. Fisher III and T. Syed, Differential Pricing, In: Fisher III and Syed, Infection: The Health Crisis in the Developing World and What We Should Do About It, Stanford University Press (draft version 2.1), p. 15. Available at https://cyber.harvard.edu/people/tfisher/Infection_Differential_Pricing.pdf. Accessed 8 July 2018.

[7]The justification clause is embodied in Article 36 of the TFEU, stating that the prohibition of quantitative restrictions and measures having equivalent effect between Member States do not preclude "prohibitions or restrictions on imports, exports or goods in transit" justified on the basis of "protection of industrial and commercial property" as long as they do not "constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States."

[8]Emphasis added. See CJEU, case 78–70, *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG*, ECLI:EU:C:1971:59, pt 11. This was confirmed in a variety of subsequent cases. See, among others, on *copyright:* CJEU, case C-61/97, *Foreningen af danske Videogramdistributører, acting for Egmont Film A/S, Buena Vista Home Entertainment A/S, Scanbox Danmark A/S, Metronome Video A/S, Polygram Records A/S, Nordisk Film Video A/S, Irish Video A/S and Warner Home Video Inc. v Laserdisken*, ECLI:EU:C:1998:422, pts 13–14; on *patent rights*: CJEU, case C-316/95, *Generics BV v Smith Kline & French Laboratories*, ECLI:EU:C:1997:347, pts 19–20; on trademark rights: CJEU, case C-349/95, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v George Ballantine & Son Ltd and Others*, ECLI:EU:C:1997:530, pt 21; and on *design rights*: CJEU, case C-23/99, *Commission of the European Communities v French Republic*, ECLI:EU:C:2000:500, pts 37–38. See also Court of Appeals of Brussels 20 November 2011, *PI Pharma NV v Novartis Consumer Health NV, Novartis Consumer Health SA, and Novartis AG*, Jaarboek Marktpraktijken 2012, p. 769 (on the relation between trademark exhaustion and the free movement of goods).

[9]CJEU, joined cases C-403/08 and C-429/08, *Football Association Premier League Ltd and Others v QC Leisure and Others (C-403/08) and Karen Murphy v Media Protection Services Ltd (C-429/08)*, ECLI:EU:C:2011:631, pt 107 (which was, as EU intellectual property law did not protect sporting events, based on *sui generis* national IP protection legislation conferring, although not in itself considered copyright, the same rights as provided to copyright owners; see pts 28–29 and 99).

[10]CJEU, case 15–74, *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc.*, ECLI:EU:C:1974:114, pt 15. See also A. Kur and T. Dreier, European Intellectual Property Law – Text, Cases and Materials, Edward Elgar 2013, p. 47.

i.e., as the prohibition for the proprietor to oppose the use of products previously put into circulation in the exporting EU Member State by the rightsholder or with his consent.[11] This was confirmed in copyright, trademark, and patent rights cases.[12] Similar principles of EU exhaustion likewise apply to computer programs[13] and databases.[14] Conversely, rental and lending agreements generally do not trigger exhaustion.[15]

Somewhat atypically indeed, the doctrine of regional exhaustion was—rather than via direct IP laws—first introduced through Treaty provisions on the free movement of goods and services.[16] The philosophy behind this introduction is as follows: if an entity active in, e.g., Belgium could prohibit the parallel import of a product marketed by the former entity (or with its consent) in, e.g., France, then such an action could partition national markets and restrict trade between Member States; this outcome, it was reasoned, may be unnecessary in light of protecting the essence of one's exclusive IP right.[17] Hence, even though the *existence* of industrial and IP rights is not affected by Treaty provisions, their *exercise* may conflict with the free movement of goods and services (the so-called exercise/existence dichotomy).[18]

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[11] See, e.g., CJEU, case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, ECLI:EU:C:1994:261, pt 34; CJEU, case C-244/00, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, ECLI:EU:C:2003:204, pt 25.

[12] See for Belgian cases, e.g., Belgian Court of Cassation 25 February 2010, *Greenstar-Kanzi Europe v H.J. and G.J.* (C.08.0474.N), available at www.cass.be (accessed 8 July 2018); Court of Appeals of Brussels 20 November 2011, *PI Pharma NV v Novartis Consumer Health NV, Novartis Consumer Health SA, and Novartis AG*, Jaarboek Marktpraktijken 2012, p. 765; President of the Commercial Court of Brussels 11 December 2013, *Hugo Boss Trade Mark Management GmbH & Co. KG v EMS LTD Export Management Service and Herfurth Logistics NV*, Jaarboek Marktpraktijken 2013, p. 1064 (pt 25). For EU cases, see *infra*.

[13] Article 4.2 of Directive 2009/24 of 23 April 2009 on the legal protection of computer programs, OJ 2009 L 111, p. 16; Article XI.298, c) of the BCEL.

[14] Article 5.c of Directive 96/9 of 11 March 1996 on the legal protection of database, OJ 1996 L 77, p. 20; Article XI.307, section 3 of the BCEL.

[15] Article 1(1), 1(2), and Article 9.2 of Directive 2006/115 of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property, OJ 2006 L 376, p. 28; Articles XI.165 (1)(6) and XI.298, c) of the BCEL; S. von Lewinski and M. M. Walter, Information Society Directive, In: Walter and von Lewinski (eds), European Copyright Law. A Commentary, Oxford University Press 2010, pp. 1003–1004, nr. 11.4.36.

[16] As enshrined in Articles 56–62 of the TFEU.

[17] See, e.g., CJEU, case C-244/00, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, ECLI:EU:C:2003:204, pt 39.

[18] For cases establishing this dichotomy, see, e.g., CJEU, case 78–70, *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG*, ECLI:EU:C:1971:59, pt 11 (on copyright); CJEU, case 16–74, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, ECLI:EU:C:1974:115, pt 6 (on trademark rights); CJEU, case 102/77, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, ECLI:EU:C:1978:108, pt 6 (on trademark rights); CJEU, case 58/80, *Dansk Supermarked A/S v A/S Imerco*, ECLI:EU:C:1981:17, pt 11 (on copyright and trademark rights).

In addition to imposing *regional* exhaustion, harmonization measures likewise prohibit Belgium (and other EU Member States) from adopting a system of *international* exhaustion.

First, in a *trademark* context, the Court interpreted Article 7(1) of the Trademark Directive as precluding Member States from applying international exhaustion. It was argued that a situation in which certain Member States practice global exhaustion, while others do not, would hamper the functioning of the internal market and raise barriers to the free movement of goods as well as the free provision of services.[19] As stipulated in Article XI.163 of the Belgian Code of Economic Law[20] (henceforth: the "BCEL"), Belgian trademark protection is governed by the Benelux Treaty on Intellectual Property.[21] The latter Treaty confirms the principle of intra-EU exhaustion for, among others, trademarks.[22] The lack of international exhaustion for trademarks was likewise confirmed by several Belgian courts.[23] In this regard, the Court of Appeals of Brussels highlighted that such a lack of international exhaustion may be regarded as protectionist, even damaging the interests of consumers, but that this approach is nonetheless the one decided on by the European legislator.[24]

Similarly, for *copyright*, it was held that the marketing of products in third countries does not exhaust a proprietor's rights over them[25] and, on the basis of the InfoSoc Directive,[26] that Member States may not establish an exhaustion regime

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[19] CJEU, case 51-75, *EMI Records Limited v CBS United Kingdom Limited*, ECLI:EU:C:1976:85, pts 21–22.

[20] Wetboek van economisch recht, *BS* 29 March 2013 (henceforth: the "Belgian Code of Economic Law" or the "BCEL").

[21] Benelux-Verdrag inzake de intellectuele eigendom (merken en tekeningen of modellen) gedaan te Den Haag op 25 februari 2005, *BS* 26 April 2006 (henceforth: the "Benelux Treaty on Intellectual Property").

[22] Article 2.23 of the Benelux Treaty on Intellectual Property (on trademark rights). See also Belgian Court of Cassation 2 November 2017, *Impro Europe v XEROX*, I.R.D.I. 2017, p. 292; Belgian Court of Cassation 7 November 2016, *Merck, Sharp & Dohme Corp. v PI Pharma NV* (C.15.0206. N), available at www.cass.be (accessed 8 July 2018).

[23] See, e.g., Court of Appeals of Antwerp 5 March 2001, *N.V. Honda Belgium and Honda Giken Kogyo Kabushiki Kaisha v N.V. Verboven and B.V.B.A. Occasiemarkt De Zwarte Arend*, I.R.D.I. 2001, p. 166 (likewise confirming that a trademark holder's opposition to extra-EEA parallel import does not, as such, comprise an abuse of rights); Court of Appeals of Brussels 17 February 2017, *Mitsubishi Shoji Kaisha Ltd and Mitsubishi Caterpillar Forklift Europe B.V. v Duma Forklifts N.V. and G.S. International B.V.B.A.*, I.R.D.I. 2017, p. 54; Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 334 (pt 31).

[24] Court of Appeals of Brussels 16 March 2001, *S.A. Carrefour Belgium v Lancôme Parfums et Beauté et Cie, L'Oréal, Modefine et Jeanne Lanvin*, JLMB 2001(33), p. 1443.

[25] Court of First Instance of the EU, case T-198/98, *Micro Leader Business v Commission of the European Communities*, ECLI:EU:T:1999:341, pts 54–56.

[26] Directive 2001/29 of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ 2001 L 167, p. 10 (hereafter: the "InfoSoc Directive", in which Recital 28, to be read in conjunction with Articles 4(2) and 5, sets forth that "[t]he exclusive right to control distribution of the work incorporated in a tangible article . . . should not be exhausted in respect of the original or of copies thereof sold by the rightholder or with his consent outside the Community").

other than the intra-EU exhaustion doctrine.[27] This is also confirmed in Article XI.165 of the BCEL, which stipulates the exhaustion of *distribution* rights upon (1) a sale or other property transfer (2) in the *European Union* (3) by the rightsholder or with his consent.

The same applies to *design* rights through the EU Design Directive[28] and Regulation,[29] which provide for a Union-wide exhaustion regime that impedes Member States from establishing an international variant.[30] Following Article XI.163 of the BCEL, Belgian protection of designs is provided through the Benelux Treaty on Intellectual Property which confirms the principle of intra-EU exhaustion for models.[31]

For Unitary *patents*, regional exhaustion has also been stipulated on a European level.[32] While the CJEU has held that patented products from non-EU countries may be refused without infringing the free movement of goods,[33] it is—due to a lack of harmonization—up to Member States to decide over the national implementation of a system of international exhaustion for patents.[34] National exhaustion for Belgian patents has also been codified in the Belgian Code of Economic Law.[35]

Several conclusions may be drawn from the previous considerations. First, the *ratio legis* of this EU doctrinal variant partially stems from a desire to balance the wishes of the IP rightsholder and the public interest, as the free movement of goods and services provides strong societal benefits. However, the traditional premise differs slightly: rather than opposing exclusive IP rights to, e.g., monopoly power or previously acquired royalties,[36] the EU exhaustion doctrine opposes such exclusivity to free movement principles. Second, as this "balance" is struck by a combination of legal branches, an intradisciplinary approach must be adopted upon studying exhaustion in a European and national context. Furthermore, considering

[27]CJEU, case C-479/04, *Laserdisken ApS v Kulturministeriet*, ECLI:EU:C:2006:549, pt 24.

[28]Article 15 of Directive 98/71 of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs, OJ 1998 L 289, p. 28.

[29]Article 21 of Council Regulation No 6/2002 of 12 December 2001 on Community designs, OJ 2002 L 3, p. 1.

[30]C. Seville, EU Intellectual Property Law and Policy, Edward Elgar Publishing 2016, p. 419.

[31]Article 3.19(4) of the Benelux Treaty on Intellectual Property (on design and drawing rights).

[32]Article 6 of Regulation 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection, OJ 2012, L 361, p. 1.

[33]See, e.g., CJEU, case C-191/90, *Generics (UK) Ltd and Harris Pharmaceuticals Ltd v Smith Kline & French Laboratories Ltd*, ECLI:EU:C:1992:407, pt 17.

[34]C. Stothers, Patent Exhaustion: The UK Perspective, In: Hansen (ed), Intellectual Property Law and Policy – Volume 11, Bloomsbury Publishing 2010, pp. 686–687 (noting that, although several proposals for patent harmonization prohibited international exhaustion, these have not been adopted; and that "it is up to individual Member States to decide to what extent they wish to apply a rule of international exhaustion").

[35]Article XI.34 section 2 of the BCEL.

[36]See, e.g., Adams v Burke, 84 U.S. 17 Wall. 453, 456 (1873).

the prevalence of supranational harmonization in diverse IP fields, an analysis of the European level is fundamental to a proper understanding of the Belgian framework. Third, the goals of European exhaustion diametrically oppose the principal idea behind price discrimination. By preventing arbitrage, price-discriminating entities aim to partition territories and sort consumers; however, as set forth by Armstrong, "[a]rguably, one manifestation of a single market is that a firm does not set different prices in different regions, or at least it does not prevent arbitrageurs reselling goods sourced in the low-price region to the high-price region."[37] As a result, rather than being a mere side effect of the exhaustion doctrine, discriminatory pricing practices are directly targeted by this doctrine's underlying primary ambition to establish an EU single market.

### 16.2.2 Criteria for the Application of Exhaustion

The *trigger* for the application of the intra-EU exhaustion doctrine is multileveled.

First, there must be a sale or other transfer of property.[38] In this regard, EU jurisprudence dictates a commonly accepted definition of a "sale," i.e., "an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him."[39] Generally, rights of distribution are solely exhausted when a good is sold or placed on the market via, or together with, a tangible medium. A peculiarity exists for computer programs, which are governed by Articles XI.294 *et seq.* of the Belgian Code of Economic Law as transposed from the Computer Programs Directive.[40] In particular, in *Usedsoft v Oracle*, the CJEU provided that a "transfer of property" likewise comprised the non-exclusive, non-transferable license to use a computer program for an unlimited period of time where such a license provides the

[37] M. Armstrong, Price Discrimination, University College London – Department of Economics 2006, pp. 1–2. Available at http://else.econ.ucl.ac.uk/papers/uploaded/222.pdf. Accessed 8 July 2018.

[38] See, e.g., Belgian Court of Cassation 2 November 2017, *Impro Europe v XEROX*, I.R.D.I. 2017, p. 292; Court of Appeals of Ghent 2 May 2011, *Colman Leder NV v Proveco NV*, Jaarboek Marktpraktijken 2011, p. 675 (on products placed on the market in the Benelux region and the relation to the EU-wide exhaustion rules); Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 334 (pt 32).

[39] CJEU, case C-128/11, *UsedSoft GmbH v Oracle International Corp.*, ECLI:EU:C:2012:407, pt 42. See, similarly, Belgian Court of Cassation 2 November 2017, *Impro Europe v XEROX*, I.R.D.I. 2017, p. 293.

[40] Article 4(2) of Directive 2009/24 of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ 2009 L 111, p. 16 (the "Computer Programs Directive") *juncto* CJEU, case C-128/11, *UsedSoft GmbH v Oracle International Corp.*, ECLI:EU:C:2012:407, pt 59 (holding that "the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 concerns both tangible and intangible copies of a computer program, and hence also copies of programs which, on the occasion of their first sale, have been downloaded from the internet onto the first acquirer's computer").

rightsholder with a fee corresponding to the economic value of the copy of the work.[41] This creates a strange dichotomy, where not all digital goods are covered by the exhaustion doctrine even though the CJEU considers that "[t]he on-line transmission method is the functional equivalent of the supply of a material medium."[42]

Second, the aforementioned sale or transfer of property must have occurred by or with the consent of the rightsholder.[43] In addition, placing a protected good on the Belgian market will also lead to the "renunciation" of the exclusive right when enacted by a person economically linked to the proprietor.[44] While the CJEU does not provide an exact definition of such "economic links,"[45] the Court of Appeals of Ghent holds that, in order to prove economic links, claimants are first to demonstrate a structural link between entities.[46] Following the CJEU, the concept of "economic links" in each case covers products put into circulation "by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group, or by an exclusive distributor."[47] The aforementioned Court of Appeals added, in this regard, that it does not suffice for a party to demonstrate, e.g., (1) the fact of purchasing products with the trademark holder (whether or not they are specifically made for that party after ordering them); (2) the existence of considerable resemblance between the products placed on the market by the trademark holder and the party, on different markets; (3) the lack of diversification in products; (4) the length (e.g., 34 years) of the commercial relations between the trademark holder and the party

[41] CJEU, case C-128/11, *UsedSoft GmbH v Oracle International Corp.*, ECLI:EU:C:2012:407, pt 45. It should be noted that, in its judgment of 11 September 2015, the Court of Appeals of Brussels confirmed a variety of principles set forth in the *Usedsoft v Oracle* case. See Court of Appeals of Brussels 11 September 2015, *Saga Consulting v BV Yuice Business One and Straton IT-Consulting AG*, Auteurs en Media 2015(5–6), pp. 391–396. However, the latter case related predominantly to civil law aspects, rather than elements of exhaustion or IP. See J. Clinck, Analyse van de UsedSoft-principes naar aanleiding van eerste toepassing in de Belgische rechtspraak, Auteurs & Media 2015 (5–6), p. 384.

[42] *Id.* at pt 61.

[43] For the Benelux, see, e.g., Benelux Court of Justice 6 July 1979, *Pfizer Incorporated v Meditec B.V. and Antonius Johannes Th. Van Den Broek* (A 78/2), available at www.courbeneluxhof.be (accessed 8 July 2018), 6; Benelux Court of Justice 6 December 1999, *Kipling v GB Unic and Parimpex* (A 98/1), available at www.courbeneluxhof.be (accessed 8 July 2018), pt 14 *et seq*. For Belgium in particular, see, e.g., Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 334 (pt 32).

[44] CJEU, case C-127/09, *Coty Prestige Lancaster Group GmbH v Simex Trading AG*, ECLI:EU:C:2010:313, pt 29.

[45] Opinion of AG Mengozzi of 12 September 2017 in Case C-291/16, *Schweppes, S.A. v Exclusivas Ramírez, S.L. and Others*, ECLI:EU:C:2017:666, pt 75 ("the Court does not define the concept of 'economic links', merely confirming that such links exist in the three situations").

[46] Court of Appeals of Ghent 2 May 2011, *Colman Leder NV v Proveco NV*, Jaarboek Marktpraktijken 2011, p. 676.

[47] See, e.g., CJEU, case C-324/08, *Makro Zelfbedieningsgroothandel CV, Metro Cash & Carry BV and Remo Zaandam BV v Diesel SpA*, ECLI:EU:C:2009:633, pt 24. In its 2011 judgment, the Court of Appeals likewise checks for the same instances of 'economic links' – see Court of Appeals of Ghent 2 May 2011, *Colman Leder NV v Proveco NV*, Jaarboek Marktpraktijken 2011, p. 676.

invoking exhaustion; or (5) the overlap of interests between that party and the trademark holder, as a means to establish economic links.[48]

The Court of Appeals and the Commercial Court of Brussels have also confirmed that consent must be provided in a manner demonstrating, with certainty (even though it may be in an implicit manner), the fact that the trademark owner has given up his exclusive rights.[49] Following *Zino Davidoff v Tesco*, implied consent can nevertheless not be inferred from (1) a trademark proprietor's "mere silence"; (2) the lack of communication of the proprietor's opposition as regards the marketing of the product on EU territory; (3) the absence of any warning labels on trademark-protected goods, indicating a prohibition for them to be placed on the EU market; (4) the lack of set contractual limitations upon transferring ownership of the goods, bearing the trademark, by the proprietor; and (5) any right to unlimited resales or to market goods within the EU, if provided by Belgian laws governing contracts on the transfer of ownership when no contractual limitations have been stipulated.[50] Similarly, as submitted by the Court of Appeals of Brussels, implied consent cannot be derived from a trademark holder's *tolerance* of parallel imports from third countries.[51] With respect to copyright, the CJEU chose not to extend exhaustion to cover the distribution of an object incorporating copyrighted material if this object has—after its initial marketing—been modified to such an extent that "it constitutes a new reproduction of that work." Exhaustion would, then, only apply to this object upon first sale or where ownership is transferred with the consent of the copyright holder.[52]

As a third criterion, the sale or transfer of ownership must occur in the European Economic Area (the "EEA"). Indeed, the abovementioned instruments of European law, including the principles of exhaustion, are extended to include the EU Member States, as well as Liechtenstein, Iceland, and Norway.[53] The Benelux Court of Justice added that the sole fact of products being designed, manufacturered, or

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[48]Court of Appeals of Ghent 2 May 2011, *Colman Leder NV v Proveco NV*, Jaarboek Marktpraktijken 2011, pp 676–678.

[49]Court of Appeals of Brussels 17 February 2017, *Mitsubishi Shoji Kaisha Ltd and Mitsubishi Caterpillar Forklift Europe B.V. v Duma Forklifts N.V. and G.S. International B.V.B.A.*, I.R.D.I. 2017, p. 55; Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 335 (pt 34).

[50]CJEU, joined cases C-414/99 to C-416/99, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, ECLI:EU:C:2001:617, pts 56–58. This was also confirmed in Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 335 (pt 34).

[51]Court of Appeals of Antwerp 5 March 2001, *N.V. Honda Belgium and Honda Giken Kogyo Kabushiki Kaisha v N.V. Verboven and B.V.B.A. Occasiemarkt De Zwarte Arend*, I.R.D.I. 2001, p. 166.

[52]CJEU, case C-419/13, *Art & Allposters International BV v Stichting Pictoright*, ECLI:EU:C:2015:27, pt 46 (in which an artistic image was transferred from a paper poster onto a painter's canvas by means of a process involving, *inter alia*, a synthetic coating and chemicals, see pts 15 and 42).

[53]See Annex XVII to the Agreement on the European Economic Area, OJ 1994 L 001, p. 3.

exported in the EEA does not imply that the trademark holder consents to the sale or transfer of ownership, triggering exhaustion, within the EEA.[54] Rather than the rightsholder having to prove the absence of consent on the sale or transfer of ownership in the EEA, the burden of exhaustion is on the alleging party.[55] This was also set forth in several instances in Belgian jurisprudence.[56]

The aforementioned burden of proof may nonetheless be altered where that general rule induces proprietors to partition markets and facilitate geographic price differences.[57] Reflecting on, e.g., price discrimination, from a strategic perspective, this reversal of the burden of proof is sensible. As submitted by Hanks, undertakings may indeed limit resales within certain locations or to certain buyer groups (1) by only supplying to those who do not practice arbitrage; or (2) by exercising their (intellectual) property rights (e.g., by prohibiting non-licensed import of products by third parties).[58] Facing the reality of an undertaking engaging in parallel imports while in an exclusive distribution network, an instinctive retaliation method for the manufacturer may be (1) to trace the "leak"; and (2) to cease supply to the reselling entity, effectively drying up the stream of parallel imports. In such events, the burden

[54]Benelux Court of Justice 6 December 1999, *Kipling v GB Unic and Parimpex* (A 98/1), available at www.courbeneluxhof.be (accessed 8 July 2018), pt 17.

[55]CJEU, case C-414/99, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, ECLI:EU:C:2001:617, pt 54.

[56]See, e.g., Court of Appeals of Mons 6 December 1999, *Société américaine Levi Strauss & Co v SPRL Hit Boutique and J. Bartkowiak*, Tijdschrift voor Belgisch Handelsrecht/Revue de droit commercial belge 2001, p. 241; Court of Appeals of Antwerp 5 March 2001, *N.V. Honda Belgium and Honda Giken Kogyo Kabushiki Kaisha v N.V. Verboven and B.V.B.A. Occasiemarkt De Zwarte Arend*, I.R.D.I. 2001, p. 166; Court of Appeals of Ghent 2 May 2011, *Colman Leder NV v Proveco NV*, Jaarboek Marktpraktijken 2011, p. 676; Court of Appeals of Brussels 17 February 2017, *Mitsubishi Shoji Kaisha Ltd and Mitsubishi Caterpillar Forklift Europe B.V. v Duma Forklifts N.V. and G.S. International B.V.B.A.*, I.R.D.I. 2017, p. 55; President of the Commercial Court of Antwerp 22 May 2012, *Monnalisa SPA and Update BVBA v Nathalie BVBA and AF-Nathal Belgium BVBA*, Jaarboek Marktpraktijken 2012, pp. 860–861; President of the Commercial Court of Brussels 11 December 2013, *Hugo Boss Trade Mark Management GmbH & Co. KG v EMS LTD Export Management Service and Herfurth Logistics NV*, Jaarboek Marktpraktijken 2013, p. 1064 (pt 25); Commercial Court of Hasselt 2 August 2000, *Betterbody Company LLC, NV Bay Jacobsen, and Jobri LLC v BVBA Sissel Belgium*, I.R.D.I. 2001, p. 59; Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 334 (pt 33).

[57]CJEU, case C-244/00, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, ECLI:EU:C:2003:204, pt 40. This was also been highlighted in President of the Commercial Court of Antwerp 22 May 2012, *Monnalisa SPA and Update BVBA v Nathalie BVBA and AF-Nathal Belgium BVBA*, Jaarboek Marktpraktijken 2012, p. 861; President of the Commercial Court of Antwerp 25 January 2013, *Confiserie Leonidas NV v C.J.* (2013) 4 I.R.D.I. 316, 318 (holding that, in cases of indirect purchases, one should demonstrate along the sales chain that the trademark holder has placed the products on the EU market or that they were placed thereon with his consent); Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 335 (pt 34).

[58]F. Hanks, Intellectual property and price discrimination: a challenge for Australian competition law, Information Economics and Policy 2004(16), p. 114.

of proof is reversed where the third party can demonstrate a real risk of market partitioning. If successful, the proprietor must prove the initial release—by him or with his consent—of the products outside the EU territory (i.e., as opposed to a release within the EU). Only when the proprietor's latter allegations are deemed accurate, the third party is to demonstrate the proprietor's consent to placing the product, bearing the trademark, on the EU market.[59] The relatively low threshold for third parties to reverse the burden of proof (i.e., "partition[ing] national markets and thus assist[ing] the maintenance of price differences which may exist between Member States"), combined with the necessity for the proprietor to prove initial release *outside* the EU territory, unmistakably restrain the proprietor in his strategic choices. Nonetheless, according to Belgian jurisprudence, the alleged infringer must demonstrate, specifically, that a real danger exists if he, himself, should bear the burden of proving that the goods have been placed on the EU market. A mere description of the characteristics of the trademark owner's distribution system does not suffice if such description does not demonstrate the real risk *in concreto*.[60]

### 16.2.3 Exceptions to Exhaustion and Other Peculiarities

The abovementioned exhaustion doctrine is not absolute. First, several exceptions limit the scope of the exhaustion doctrine. Second, derogations to the doctrine are permissible if necessary to safeguard the specific subject-matter of IP.[61]

#### 16.2.3.1 Trademark Rights

##### 16.2.3.1.1 Consent

First, trademark rights are solely exhausted upon the (1) sale of the underlying product; or (2) distribution of ownership of the underlying good. Where the proprietor only *imports* the trademark-protected goods "with a view to selling them" on the EU territory[62] or where he *offers* the goods for sale within the EU, the goods are not considered to be released on the market as there is neither a

[59] CJEU, case C-244/00, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, ECLI:EU:C:2003:204, pt 41.

[60] Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 335 (pt 35).

[61] See, e.g., CJEU, case 16–74, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, ECLI:EU:C:1974:115, pt 7.

[62] See also Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 334 (pt 31) (holding that the *possibility* of a trademark holder placing a product on a given market does not alter his rights under the exhaustion doctrine to control the first sale).

transfer of ownership, nor has the economic value of the trademark been realized on the part of the proprietor.[63] Indeed, as also highlighted by the Belgian Court of Cassation, the trademark owner does not exhaust his rights upon offering, though not succeeding, to sell his goods on the EU market. Furthermore, goods provided by the trademark holder through an agreement of retention of title are not necessarily exhausted.[64] Similarly, the Court of Appeals of Brussels has provided that, for regional exhaustion to be triggered, it does not matter whether certain products were *intended* for the European market (e.g., as derived from certain market-specific marks fixed on the product) but only if they were *placed* on the market by the trademark holder or with his consent.[65] Additionally, in *Sebago*, the Court submitted that exhaustion only applies where trademark proprietors have consented to *each individual item* of the product on the EU market, as opposed to when proprietors have merely consented to the marketing of goods *identical or similar* to the products for which exhaustion is claimed. As a result, proprietors may still oppose other products that have been put on the EU market, under the same brand, yet to which the rightsholders have not consented.[66] This was also confirmed by the

[63]CJEU, case C-16/03, *Peak Holding AB v Axolin-Elinor AB*, ECLI:EU:C:2004:759, pts 39–44. See also, confirming the former *Peak Holding* judgment, Belgian Court of Cassation 2 November 2017, *Impro Europe v XEROX*, I.R.D.I. 2017, pp. 292–293. Similarly, when goods—bearing a protected mark—are in transit from a Member State to a third country (but also, generally, regardless of the final destination of the good), through one or several Member States, the product in question is not considered as marketed. See, in this regard, CJEU, case C-115/02, *Administration des douanes et droits indirects v Rioglass SA and Transremar SL*, ECLI:EU:C:2003:587, pts 27–28. Similar to the latter case, intra-EU transit does not involve using the appearance of a protected design and does, therefore, "not form part of the specific subject-matter of the right of industrial and commercial property in designs." See CJEU, case C-23/99, *Commission of the European Communities v French Republic*, ECLI:EU:C:2000:500, pt 43. See also, on the junction between trademark law and goods in transit, Richard Steppe, The Current EU Framework Regarding Border Measures against Goods in Transit: A Viable and Balanced Set of Instruments?, Jura Falconis 2015(52-1), pp. 77–106.

[64]See also Belgian Court of Cassation 2 November 2017, *Impro Europe v XEROX*, I.R.D.I. 2017, p. 293. See, in further detail: S. Geiregat, Commentary of the Belgian Court of Cassation 2 November 2017, I.R.D.I. 2017, pp. 293–296.

[65]Court of Appeals of Antwerp 5 March 2001, *N.V. Honda Belgium and Honda Giken Kogyo Kabushiki Kaisha v N.V. Verboven and B.V.B.A. Occasiemarkt De Zwarte Arend*, I.R.D.I. 2001, p. 166.

[66]This reasoning is, among others, based on (now) Article 7(1) of the Trademark Directive (for the Belgian transposition, see Article XI.163 of the BCEL *juncto* Article 2.23(3) of the the Benelux Treaty on Intellectual Property), of which the purpose is (1) to enable the further marketing of a trademark-protected product that has already been put on the market with the proprietor's consent; and (2) to prevent the proprietor from blocking such marketing. See CJEU, case C-173/98, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA*, ECLI:EU:C:1999:347, pts 19–22. See also CJEU, case C-127/09, *Coty Prestige Lancaster Group GmbH v Simex Trading AG*, ECLI:EU:C:2010:313, pt 31.

Benelux Court of Justice[67] and several Belgian courts, with explicit reference to the *Sebago* case law.[68]

In *Coty Prestige v Simex Trading*, the CJEU held that a trademark proprietor does not exhaust his rights when providing dealers with free perfume "testers" while opposing the sale of such testers. *In casu*, the testers were original bottles with original perfume, though—considering their function as advertisement material—labelled "Demonstration" and containing the clear marking "Not for Sale." In the case brought before the Court, it was alleged that the perfume was put on the market, not by the proprietor or an economically-linked person, but by a third party selling the testers. Rejecting this argument, the Court reasoned that the labels and marks affixed on the testers demonstrated the proprietor's intent for the trademark-protected goods not to be sold anywhere, whether within or outside the EU.[69]

The situation in *Coty Prestige* arguably involves discriminatory pricing. First, the testers and original perfume were sent to the dealers by the same undertaking and provided by the same dealer to the final customers. Second, the testers were offered for free—both to the dealers and to final consumers (it is likewise, in this regard, not inconceivable that dealers would give away the testers rather than limit them to in-store use)—whereas both dealers and end consumers paid the "full" price for the original, non-tester perfume. Third, the testers and actual perfume were—save for some labels and markings—wholly identical in terms of the quantity, quality, and bottling of the perfume. Finally, considering these similarities, the differences in price (i.e., free versus full price) could be explained by differences in purpose, surely, but not by dissimilar (marginal) costs during the production of the goods. As a result, by curbing arbitrage of testers, the CJEU judgment may be argued to enhance discriminatory pricing practices on the levels of both manufacturers and dealers.

The *Coty Prestige* judgment is interesting in light of general CJEU jurisprudence, which seems to hold that trademark rights are not generally intended to promote retention of price differences between Member States. In *Bristol-Myers Squibb et al.*, the Court, however, also highlighted that trademark proprietors may have no control over the price differences of their goods as, with respect to the pharmaceutical sector, diverging prices across Member States may stem from (1) contrasting rules on fixed maximum prices; (2) profit margins set by pharmaceutical wholesalers or pharmacies;

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[67] See, e.g., Benelux Court of Justice 6 December 1999, *Kipling v GB Unic and Parimpex* (A 98/1), available at www.courbeneluxhof.be (accessed 8 July 2018), pt 16.

[68] See, e.g., Court of Appeals of Brussels 17 February 2017, *Mitsubishi Shoji Kaisha Ltd and Mitsubishi Caterpillar Forklift Europe B.V. v Duma Forklifts N.V. and G.S. International B.V.B.A.*, I.R.D.I. 2017, p. 55; President of the Commercial Court of Brussels 11 December 2013, *Hugo Boss Trade Mark Management GmbH & Co. KG v EMS LTD Export Management Service and Herfurth Logistics NV*, Jaarboek Marktpraktijken 2013, p. 1064 (pt 25); Commercial Court of Hasselt 2 August 2000, *Betterbody Company LLC, NV Bay Jacobsen, and Jobri LLC v BVBA Sissel Belgium*, I.R.D.I. 2001, p. 59.

[69] CJEU, case C-127/09, *Coty Prestige Lancaster Group GmbH v Simex Trading AG*, ECLI:EU:C:2010:313, pts 12, 25, 34, 43, 45 and 47.

as well as (3) maximum reimbursements set by sickness insurance arrangements.[70] In these cases, parallel trade is arguably enhanced by governmental export subsidies, as third parties benefit from governmentally-imposed low prices for particular products, to resell them in other countries at much higher prices.[71]

Nevertheless, price distortions (e.g., "the foreseeable consequence of substantial exports taking place"[72]) generated by contrasting Member State laws or domestic idiosyncrasies are to be resolved by *EU authorities*, for instance, through harmonization measures of national price laws and in addition to competition enforcement. Naturally, such measures are then to be taken in a manner compatible with the Treaty provisions on the free movement of goods and not, e.g., through Belgian laws enabling trademark proprietors to take legal actions against parallel imports.[73] The Court, on certain occasions, indeed deals with price differences and discrimination itself by virtue of the free movements, whereas, in other situations, it accepts the limited nature of its ability to apply Treaty provisions as a means to eliminate market-partitioning elements, referring to harmonization as a more efficient tool.

#### 16.2.3.1.2 Essential Function of a Trademark

The essential function of a trademark is "to guarantee the identity of the origin of the marked product to the consumer or ultimate user by enabling him without any

[70]CJEU, joined cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S (C-436/93)*, ECLI:EU:C:1996:282, pt 46; CJEU, joined cases C-71/94, C-72/94 and C-73/94, *Eurim-Pharm Arzneimittel GmbH v Beiersdorf AG (C-71/94), Boehringer Ingelheim KG (C-72/94) and Farmitalia Carlo Erba GmbH (C-73/94)*, ECLI:EU:C:1996:286, pt 33; CJEU, case C-232-94, *MPA Pharma GmbH v Rhône-Poulenc Pharma GmbH*, ECLI:EU:C:1996:289, pt 19.

[71]E. Bonadio, Parallel imports in a global market: should a generalized international exhaustion be the next step? European Intellectual Property Review 2011(33-3), p. 157. Export subsidies are prohibited in various cases—see, e.g., Article 27.4 of the WTO Agreement on Subsidies and Countervailing Measures [1994]. Available at https://www.wto.org/english/docs_e/legal_e/24-scm.pdf. Accessed 8 July 2018.

[72]S. Kaur Verma, Exhaustion of Intellectual Property Rights and Free Trade – Article 6 of the TRIPs Agreement, International Review of Industrial Property and Competition Law 1998 (29-5), p. 549.

[73]CJEU, joined cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S (C-436/93)*, ECLI:EU:C:1996:282, pt 46. See also, similarly, CJEU, case 16–74, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, ECLI:EU:C:1974:115, pts 15–18; CJEU, joined cases C-267/95 and C-268/95, *Merck & Co. Inc., Merck Sharp & Dohme Ltd and Merck Sharp & Dohme International Services BV v Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd and Beecham Group plc v Europharm of Worthing Ltd*, ECLI:EU:C:1996:468, pt 47; CJEU, case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, ECLI:EU:C:1997:517, pt 37; CJEU, case C-349/95, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v George Ballantine & Son Ltd and Others*, ECLI:EU:C:1997:530, pt 24.

possibility of confusion to distinguish that product from products which have another origin."[74] This function was, for instance, jeopardized where proprietors could not oppose the importation of similar goods containing a mark able to be confused with their own.[75] More generally, as confirmed by the Court of Appeals and the Commercial Court of Brussels, whenever a third party's action limits the trademark owner in his ability to examine the first sale of the resulting products, the essential function of the trademark has been breached.[76] For instance, the Court of Appeals of Brussels provided that the removal by a third party of identification codes on shoes no longer enabled the trademark holder to evaluate the quality and origin of those shoes. As such, the codes served a marketing function and allowed to combat counterfeits; fixing such codes on the shoes was not deemed to be contrary to the Treaty provisions on the free movement of goods and, hence, the trademark holder was allowed to invoke the removal of the codes as an exception against the exhaustion doctrine.[77]

However, even if goods bearing a protected mark have been legitimately released on the EU market by the proprietor (or an economically-linked person) or with his consent, he may still oppose further commercialization on the basis of legitimate reasons.[78] The Trademark Directive,[79] transposed into Belgian law via Article XI.163 of the BCEL *juncto* the Benelux Treaty on Intellectual Property,[80] and the Trademark Regulation[81] stipulate that such "legitimate reasons" may cover (but are

[74]CJEU, case 102/77, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, ECLI:EU:C:1978:108, pt 7; CJEU, case C-349/95, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v George Ballantine & Son Ltd and Others*, ECLI:EU:C:1997:530, pt 24. For an application of this 'confusion consideration' in Belgium, see Court of Appeals of Ghent 2 May 2011, *Colman Leder NV v Proveco NV*, Jaarboek Marktpraktijken 2011, p. 675 (holding that "[b]y placing products in the Benelux, over which NV Proveco does not have control, the consumer may be confused and judge that such products originate from NV Proveco while this is not the case. This concerns a legitimate application of Article 36 of the Treaty on the Functioning of the European Union" – free translation).

[75]CJEU, case C-10/89, *SA CNL-SUCAL NV v HAG GF AG ("HAG II")*, ECLI:EU:C:1990:359, pts 16–19.

[76]Court of Appeals of Brussels 17 February 2017, *Mitsubishi Shoji Kaisha Ltd and Mitsubishi Caterpillar Forklift Europe B.V. v Duma Forklifts N.V. and G.S. International B.V.B.A.*, I.R.D.I. 2017, p. 55; Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.*, I.R.D.I. 2016(4), p. 335 (pt 36).

[77]Court of Appeals of Brussels 14 January 1999, *Reebok Ltd v S.A. Cora, S.A. Euro Shoe Unie, SPRL Textile Assocciation, SPRL Deledo*, I.R.D.I. 1999, p. 55 *et seq.*

[78]See, e.g., Court of Appeals of Antwerp 5 March 2001, *N.V. Honda Belgium and Honda Giken Kogyo Kabushiki Kaisha v N.V. Verboven and B.V.B.A. Occasiemarkt De Zwarte Arend*, I.R.D.I. 2001, p. 165.

[79]See, in particular, Article 7(2) of the Trademark Directive.

[80]See, in particular, Article 2.23(3) of the Benelux Treaty on Intellectual Property.

[81]Article 15(2) of Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark (henceforth: the "Trademark Regulation").

not limited to[82]) situations in which the condition of the product, subsequent to having been put on the market, is "changed or impaired."[83] Such change or impairment predominantly involves (1) the repackaging, relabeling, and rebranding of goods; as well as (2) damage to reputation. Indeed, as highlighted by the President of the Commercial Court of Brussels, even though a trademark always serves an "origin function," it also comprises—if the trademark holder opts to use it for such goals—a strategic instrument for advertising purposes or to build a reputation so as to fix consumers to a certain brand.[84]

From an EU legal perspective, the idea of *repackaging* (i.e., a third party reaffixing a trademark on a product without the proprietor's authorization) clashes with the notion that consumers are to be able to trace the origin of goods, ensuring that the product has not been interfered with in a manner altering its condition.[85] In this context, "the repackaging . . . in itself . . . is prejudicial to the specific subject-matter of the mark"—an assessment of its effects is, hence, irrelevant,[86] and so are the barriers to intra-EU trade potentially erected by the proprietor's opposition.[87] The proprietor is *not* allowed to prevent such marketing *only* when five cumulative[88] conditions are met[89]:

[82]See CJEU, joined cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S (C-436/93)*, ECLI:EU:C:1996:282, pt 39.

[83]See also President of the Commercial Court of Antwerp 25 January 2013, *Confiserie Leonidas NV v C.J.*, I.R.D.I. 2013(4), p. 318 (holding that such legitimate reasons are mostly granted in cases of a modification or deterioration of the state of the product or of its packaging; in the case itself, damage to reputation is likewise considered a legitimate reason).

[84]President of the Commercial Court of Brussels 27 May 2015, *Rolex NV and Rolex Benelux NV v King Jewelry BVBA*, Jaarboek Marktpraktijken 2015, p. 611.

[85]See, e.g., CJEU, case C-443/99, *Merck, Sharp & Dohme GmbH v Paranova Pharmazeutika Handels GmbH*, ECLI:EU:C:2002:245, pt 23.

[86]CJEU, case C-348/04, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd*, ECLI:EU:C:2007:249, pt 15 (highlighting in pt 29 that an effects-based assessment is not either to be conducted in cases of 'relabeling').

[87]CJEU, case C-349/95, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v George Ballantine & Son Ltd and Others*, ECLI:EU:C:1997:530, pt 50.

[88]CJEU, joined cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S (C-436/93)*, ECLI:EU:C:1996:282, pt 50. See also Court of Appeals of Brussels 20 November 2011, *PI Pharma NV v Novartis Consumer Health NV, Novartis Consumer Health SA, and Novartis AG*, Jaarboek Marktpraktijken 2012, p. 784 (submitting that "[i]t suffices that one of the five BMS-conditions has not been met, for the trademark holder to be able to legitimately oppose the further commercialisation of the repackaged pharmaceutical product" – free translation).

[89]For case law elaborating on these conditions, see, e.g., CJEU, case C-232-94, *MPA Pharma GmbH v Rhône-Poulenc Pharma GmbH*, ECLI:EU:C:1996:289, pts 47–48; CJEU, joined cases C-71/94, C-72/94 and C-73/94, *Eurim-Pharm Arzneimittel GmbH v Beiersdorf AG (C-71/94), Boehringer Ingelheim KG (C-72/94) and Farmitalia Carlo Erba GmbH (C-73/94)*, ECLI:EU: C:1996:286, pts 65–67; CJEU, case C-349/95, *Frits Loendersloot, trading as F. Loendersloot*

– The exercise of the proprietor's exclusive trademark right would "contribute to the artificial partitioning of the markets between Member States," even though the trademark owner is not to have deliberately intended such partitioning.[90]

  The proprietor's opposition is, in such cases, only considered to contribute to "artificial" market segmentation when, e.g., an identical, trademark-protected good has been placed on the market of several Member States by means of different packaging, when repackaging by the parallel importer (1) is necessary to market the product in the countries of import (i.e., when it hinders effective market access, for instance, where specific Belgian rules or practices must be adhered to); and (2) does not affect the original condition of the product. Nevertheless, a mere commercial advantage for the importer-reseller is insufficient.[91] In addition, proprietors may still oppose the marketing of repackaged products to safeguard the trademark's "essential function."[92] Furthermore, as provided by the Court of Appeals of Brussels, the trademark holder can oppose repackaging if he prefers relabeling, as long as the relabeled product is able to be marketed in the country of import. The parallel importer is to prove that the choice for relabeling or repackaging is objectively necessary.[93]

– The repackaging is unable to "adversely affect" the product's condition (i.e., the condition of the good within the packaging), e.g., in situations where the product's condition is not at any risk of being affected by the importer's operations. This may be the case, directly or indirectly, where the original trademark proprietor has released the product in double packaging, and the reseller only repackages the external layer while leaving the internal packaging intact; where new instructions or articles are inserted into the product; or where labels are attached to the inner packaging.

*Internationale Expeditie v George Ballantine & Son Ltd and Others*, ECLI:EU:C:1997:530, pt 29; CJEU, case C-143/00, *Boehringer Ingelheim KG, Boehringer Ingelheim Pharma KG, Glaxo Group Ltd, The Wellcome Foundation Ltd, SmithKline Beecham plc, Beecham Group plc, SmithKline & French Laboratories Ltd and Eli Lilly and Co. v Swingward Ltd and Dowelhurst Ltd*, ECLI:EU:C:2002:246, pt 16; CJEU, case C-348/04, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd*, ECLI:EU:C:2007:249, pts 41–44.

[90] See also Belgian Court of Cassation 7 November 2016, *Merck, Sharp & Dohme Corp. v PI Pharma NV* (C.15.0206.N), pt 2, available at www.cass.be (accessed 8 July 2018).

[91] See, e.g., CJEU, case C-348/04, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd*, ECLI:EU:C:2007:249, pt 37.

[92] See, e.g., CJEU, joined cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S (C-436/93)*, ECLI:EU:C:1996:282, pts 57 and 79. See also Belgian Court of Cassation 7 November 2016, *Merck, Sharp & Dohme Corp. v PI Pharma NV* (C.15.0206.N), pt 2, available at www.cass.be (accessed 8 July 2018); Court of Appeals of Brussels 20 November 2011, *PI Pharma NV v Novartis Consumer Health NV, Novartis Consumer Health SA, and Novartis AG*, Jaarboek Marktpraktijken 2012, p. 776.

[93] Court of Appeals of Brussels 20 November 2011, *PI Pharma NV v Novartis Consumer Health NV, Novartis Consumer Health SA, and Novartis AG*, Jaarboek Marktpraktijken 2012, p. 778.

– The repackaging party sends a prior notice of the sale of the repackaged good to the trademark proprietor, allowing the latter a reasonable time to react. Such a system of notification is based on the loyal approach of each party to take into account the legitimate interests of the other. The Court of Appeals of Brussels has, in this regard, provided that a trademark holder does not act in a loyal manner by first invoking in judicial proceedings that the notification letter has not been sent to the correct entity of the trademark holder, even though the opportunity of informing the opposite party as regards the entity structure existed by virtue of previous mail exchanges.[94]

  Additionally, the rightsholder may, prior to the sale by the importer, demand a sample of the product to ensure that (1) the original content is not affected by the repackaging; and that (2) the new packaging does not harm the reputation of the mark. Following the aforementioned Court of Appeals, the requirement of providing a sample is not met by merely providing a leaflet, the originally imported product, and a mock-up (e.g., not in its final form or material) of the new outer packaging; instead, parallel importers should provide an actual sample of the repackaged product.[95]
– The new external packaging indicates by whom the product was repackaged, printed in a manner to be understood by people with normal eyesight and a normal degree of attentiveness; and, where additional articles are inserted, it must be apparent that the trademark proprietor is not responsible for them.
– The reputation of the trademark is not damaged by the presentation of the repackaged product, taking into account the nature of the product, as well as the intended market. For instance, the use of "defective, poor quality or untidy packaging" may be of a reputation-damaging nature.

These five requirements, which were likewise confirmed in Belgian jurisprudence,[96] *mutatis mutandis*, also apply to *relabeling* (i.e., when a label is attached to the original packaging),[97] as well as *rebranding* (i.e., when parallel importers replace the mark, as used by the trademark proprietor in the exporting Member State, by the

[94]Court of Appeals of Brussels 20 November 2011, *PI Pharma NV v Novartis Consumer Health NV, Novartis Consumer Health SA, and Novartis AG*, Jaarboek Marktpraktijken 2012, p. 780.

[95]Court of Appeals of Brussels 20 November 2011, *PI Pharma NV v Novartis Consumer Health NV, Novartis Consumer Health SA, and Novartis AG*, Jaarboek Marktpraktijken 2012, p. 782.

[96]See, e.g., Court of Appeals of Brussels 20 November 2011, *PI Pharma NV v Novartis Consumer Health NV, Novartis Consumer Health SA, and Novartis AG*, Jaarboek Marktpraktijken 2012, pp. 769–770 (in which the five abovementioned criteria are applied to a parallel import case relating to medicines).

[97]See, e.g., CJEU, case C-143/00, *Boehringer Ingelheim KG, Boehringer Ingelheim Pharma KG, Glaxo Group Ltd, The Wellcome Foundation Ltd, SmithKline Beecham plc, Beecham Group plc, SmithKline & French Laboratories Ltd and Eli Lilly and Co. v Swingward Ltd and Dowelhurst Ltd*, ECLI:EU:C:2002:246, pts 49–52 (submitting that repackaging may be legitimate to achieve effective market access, rather than pursue a mere commercial advantage, where relabeling of pharmaceutical products is met with strong resistance by consumers).

mark used by the proprietor in the importing Member State).[98] It is for the parallel importers to demonstrate the fulfillment of these conditions, and that such fulfillment offsets the opposition by trademark proprietors.[99]

It is clear from the above that the threshold for proprietors *not* to be able to limit arbitrage is high. Admittedly, for a limited number of situations,[100] Nicholson and Snyder may be correct in reporting that consumers "do not typically [buy] . . . goods repackaged by strangers, probably because it is not customary to do so and would lead one to doubt the quality of the good being repackaged and resold."[101] However, for many other markets (perhaps most famously the pharmaceutical industry), parallel trade—capitalizing on geographic price differences and discrimination[102]—is big business; in this context, the requirements described above provide proprietors with a powerful tool to halt various undesired third-party resales.

As regards *damage to reputation* in contexts other than repackaging, the CJEU recently considered a case in which a chain of chemist stores—non-authorized distributors of Dior goods—sold Dior products obtained through parallel imports. While the legality of the sales is unchallenged, Dior claimed that the advertisement of its products by the reseller "did not correspond to the luxurious and prestigious image of the Dior marks."[103] The Court submitted that advertising by resellers in manners customary in the latter's industry, even though different from those used by the trademark proprietor or its authorized dealers, does not in itself amount to a legitimate reason for the trademark proprietor to oppose such advertising. Still, proprietors have legitimate reasons to oppose where the advertising "seriously damages the reputation of the trademark," e.g., by incorporating the product in a leaflet that "seriously detracts" from the mark's image created by the owner.[104] Similarly, in Belgium, the reputation of a trademark has been deemed to closely relate to the quality of the products, as well as the way in which the products bearing

[98]CJEU, case C-379/97, *Pharmacia & Upjohn SA v Paranova A/S*, ECLI:EU:C:1999:494, pts 25 and 37 (submitting that "there is no objective difference between reaffixing a trade mark after repackaging and replacing the original trade mark by another which is capable of justifying the condition of artificial partitioning being applied differently in each of those cases", see pt 37; hence, similarly to repackaging and relabeling, it must be assessed "whether it was objectively necessary for the parallel importer to use the trade mark used in the Member State of import in order to enable the imported products to be marketed", see pt 45).

[99]CJEU, case C-348/04, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd*, ECLI:EU:C:2007:249, pt 54.

[100]The authors suggest the situation in which a consumer buys a "16-ounce coffee cup for $2.00, pour[s] it into two 8-ounce cups, and resell[s] these to other consumers, undercutting the shop's $1.60 price on these smaller cups and making a profit on the transaction." See W. Nicholson and C. M. Snyder, Intermediate Microeconomics and Its Application, Cengage Learning 2014, p. 363.

[101]*Ibid*.

[102]W. Fisher III, When Should We Permit Differential Pricing of Information? UCLA Law Review 2007(55-1), p. 13.

[103]CJEU, case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, ECLI:EU:C:1997:517, pts 5 and 7.

[104]*Id.* at pts 46–47.

such a mark are traded. As the products (chocolate) in the latter case were not transported, stored, or displayed in a manner providing sufficient (cooling) guarantees for the chocolate, the Commercial Court of Antwerp considered that such trade may be detrimental to the image of the trademark owner and constitutes a trademark infringement.[105]

#### 16.2.3.1.3 Advertising Prerogatives

Exhaustion provides resellers not only with (1) the right to resell trademark-bearing products; yet also with (2) the right to utilize a trademark to advertise (i.e., attract public attention to) such resales.[106] As a result, product resellers can, in the context of Internet reference services (e.g., Google's AdWords), use keywords similar or identical to those used by the trademark proprietor, without obtaining the latter's consent.[107]

Though a serious boost for arbitrageurs, proprietors could partially offset the competition incurred in Internet reference services by designing a system of online differential pricing for the consumers to whom the third-party ads are targeted. This would constitute no new occurrence, given that online discriminatory pricing is often already founded on so-called "rough and ready indicators."[108] For instance, online vendors may provide spontaneous discounts for purchasers visiting their online shop on a mobile browser[109] or, considering their potential price sensitivities, charge lower prices for customers redirected from discount sites.[110] In this context, it must nevertheless be observed that EU data protection[111] and

[105] President of the Commercial Court of Antwerp 25 January 2013, *Confiserie Leonidas NV v C.J.*, I.R.D.I. 2013(4), p. 318.

[106] If exhaustion would not also cover the right to attract public attention to the commercialization of the trademark-protected goods, the Court reasoned in pt 37 of *Parfums Christian Dior*, the "purpose of the 'exhaustion of rights rule . . . would . . . be undermined." See CJEU, case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, ECLI:EU:C:1997:517, pts 32–38.

[107] CJEU, case C-558/08, *Portakabin Ltd and Portakabin BV v Primakabin BV*, ECLI:EU:C:2010:416, pts 77–79.

[108] A. Miller, What do we worry about when we worry about price discrimination? The law and ethics of using personal information for pricing, Journal of Technology Law and Policy 2014 (19-1), p. 53.

[109] J. Valentino-Devries, J. Singer-Vine and A. Soltani, Websites Vary Prices, Deals Based on Users' Information, The Wall Street Journal 24 December 2012. Available at www.wsj.com/articles/SB10001424127887323777204578189391813881534. Accessed 8 July 2018.

[110] J. Mikians, L. Gyarmati, V. Erramilli and N. Laoutaris, Detecting price and search discrimination on the Internet, In: HotNets Organizing Committee, Proceedings of the 11th ACM Workshop on Hot Topics in Networks, ACM 2012, pp. 5–6.

[111] In particular, see Regulation 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46 (General Data Protection Regulation), OJ 2016 L 119, p. 1. See also, for further information on the applicability of EU data protection law to online price discrimination: R. Steppe, Prijsdiscriminatie in het digitale tijdperk: beschouwingen over de nieuwe Algemene Verordening Gegevensbescherming, In: Storme and Helsen (eds), De digitale omwenteling in het recht, Intersentia 2017, pp. 105–149; R. Steppe, Online price

e-privacy[112] legislation will apply to advertisements containing personalized pricing when such ads set and/or read cookie information, Internet Protocol addresses, and other browser-provided data.[113]

Trademark proprietors can nevertheless, in cases of legitimate reasons, legally oppose advertising by resellers.[114] First, rightsholders can dispute the legality of the importer's advertisements when seriously damaging the reputation of the trademark. Second, trademark proprietors can oppose advertisements giving the "impression" of a commercial connection between the trademark proprietor and the reseller. This impression may relate to a perceived participation of the reseller in the trademark proprietor's distribution network or an otherwise "special relationship" between both entities.[115] Considering that such impressions are unnecessary for the commercialization of the resold products, exhaustion does not apply to such activities.[116] Indeed, as confirmed by the President of the Commercial Court of Brughes, in cases where certain products have been placed on the EU market with the consent of the trademark holder, third parties can use the brand in order to sell or describe the specific products (including the use of specific documentation provided

discrimination and personal data: A General Data Protection Regulation perspective, Computer Law & Security Review 2017(33-6), pp. 768–785 (in particular, with regard to information set forth in this paragraph, see p. 776).

[112]Directive 2002/58 of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on privacy and electronic communications), OJ 2002 L 201, p. 37; as transposed in Belgium through the Wet van 13 juni 2005 betreffende de elektronische communicatie, *BS* 20 June 2005.

[113]Through advertisements, price discriminators could create a 'device fingerprint' to track users across different websites, and generate 'interest profiles' for each visiting (potential) purchaser. See A29WP, Opinion 2/2010 on online behavioural advertising, 2010, No 00909/10/EN – WP 171, p. 11. Available at http://ec.europa.eu/justice/policies/privacy/docs/wpdocs/2010/wp171_en.pdf. Accessed 8 July 2018. See also A29WP, Opinion 9/2014 on the application of Directive 2002/58/EC to device fingerprinting, 2014, No 14/EN – WP 224, p. 9. Available at http://ec.europa.eu/justice/data-protection/article-29/documentation/opinion-recommendation/files/2014/wp224_en.pdf. Accessed 8 July 2018.

[114]Article 7(2) of the Trademark Directive. See also Belgian Court of Cassation 7 November 2016, *Merck, Sharp & Dohme Corp. v PI Pharma NV* (C.15.0206.N), pt 1, available at www.cass.be (accessed 8 July 2018).

[115]CJEU, case C-63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v Ronald Karel Deenik*, ECLI:EU:C:1999:82, pt 51; CJEU, case C-558/08, *Portakabin Ltd and Portakabin BV v Primakabin BV*, ECLI:EU:C:2010:416, pts 80–81. This was also confirmed in President of the Commercial Court of Brussels 27 May 2015, *Rolex NV and Rolex Benelux NV v King Jewelry BVBA*, Jaarboek Marktpraktijken 2015, p. 613.

[116]The CJEU adds, in an online context, that third-party advertisers cannot invoke exhaustion where "circumstances in which use of that sign by the advertiser does not enable normally informed and reasonably attentive internet users, or enables them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the proprietor of that mark or from an undertaking economically linked to it or, on the contrary, originate from a third party." See CJEU, case C-558/08, *Portakabin Ltd and Portakabin BV v Primakabin BV*, ECLI:EU:C:2010:416, pt 81 (and pts 83–91 for further guidance on how such circumstances are to be assessed).

by the trademark holder). The fact of placing such goods on the EU market alone, however, does not imply that third parties can pretend to be part of the trademark holder's dealer network.[117] Nevertheless, the President of the Commercial Court of Ghent did rule that the opposition of a third party's advertisement, holding that the latter is a "specialist in the sales of used ROLEX watches," is not sufficiently legitimate.[118]

### 16.2.3.2 Patent Rights

#### 16.2.3.2.1 Consent

With regard to patents, undertakings may, rather than incur the effects of regional exhaustion, oppose the flow of products if coming from Member States in which the good (1) is not patentable; and (2) has, without the consent of the proprietor, been manufactured by third parties.[119] Additionally, where a third party manufactures products in, e.g., Belgium by virtue of a compulsory license, the original patent proprietor can oppose the marketing and import of the product into other Member States. In the latter case, no consent can be assumed, and opposition is permitted as it forms part of the "specific subject-matter" of patent rights (i.e., the exclusive right of first placement and the right to be rewarded for creative efforts).[120]

Furthermore, proprietors may block the parallel import of samples (e.g., of medicinal products) by third parties where they are used—prior to expiration of the patent—to obtain marketing authorization from authorities in other Member States.[121] The latter right of opposition, where no (in)direct consent has been obtained from the proprietor, is likewise deemed part of patents' specific subject-matter. In this regard, the Court referred to Articles 25 and 28 of respectively the Community Patent Convention,[122] an instrument likewise ratified by Belgium, and the TRIPS Agreement, which provide the patent proprietor with the exclusive right to prevent the import of products obtained directly by patented processes.[123]

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[117] President of the Commercial Court of Brughes 30 March 2006, *Carpigiani Ali SPA v Jeros A SPA and K. Huyghe*, Jaarboek Handelspraktijken & Mededinging 2006, p. 549.

[118] President of the Commercial Court of Brussels 27 May 2015, *Rolex NV and Rolex Benelux NV v King Jewelry BVBA*, Jaarboek Marktpraktijken 2015, p. 613.

[119] CJEU, case 15–74, *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc.*, ECLI:EU:C:1974:114, pt 11; CJEU, case 187/80, *Merck & Co. Inc. v Stephar BV and Petrus Stephanus Exler*, ECLI:EU:C:1981:180, pt 5.

[120] CJEU, case 19/84, *Pharmon BV v Hoechst AG*, ECLI:EU:C:1985:304, pts 25–27.

[121] CJEU, case C-316/95, *Generics BV v Smith Kline & French Laboratories*, ECLI:EU:C:1997:347, pt 16 (submitting that national rules allowing original proprietors to block such practices, even if only in principle, amount to measures having an equivalent effect to quantitative restrictions).

[122] Article 25 of the Council Agreement Relating to Community Patents 89/695, OJ 1989 L 401, p. 10.

[123] CJEU, case C-316/95, *Generics BV v Smith Kline & French Laboratories*, ECLI:EU:C:1997:347, pt 20.

In a 2011 case before the Commercial Court of Antwerp, a defendant replicated CDs and DVDs by means of a "glassmaster"; without the use of such a glassmaster as a mold, the replication process would not be able to take place. Rather than licensing such a glassmaster procedure to producers and demanding license fees thereof, the patent holder decided to solely require fees from replicators (such as the defendant). In this regard, the Commercial Court provided that there is no exhaustion of the patent holder's rights: even though the glassmasters were *produced* by applying the patented method, no licenses were provided to the producers or to the defendant.[124]

#### 16.2.3.2.2 Specific subject-matter of a Patent

Derogations are possible where rights forming part of patents' specific subject-matter are to be safeguarded.[125] In the context of patents, following the CJEU, this subject-matter is "the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements."[126] The latter subject-matter does not imply that the creative effort of the inventor will be rewarded in *all* circumstances.[127] Indeed, the subject-matter of IP in general does not grant a right to the *highest possible* remuneration; rather, prices must be reasonable in light of the economic value provided by the service.[128]

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[124]Commercial Court of Antwerp 27 April 2011, *Koninklijke Philips Electronics NV t Disco-Press BVBA, Galvomat BVBA, and Disco Print BVBA*, I.R.D.I. 2012, pp. 176–177.

[125]CJEU, case 15–74, *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc.*, ECLI:EU:C:1974:114, pt 7.

[126]*Id.* at pt 9. See also, in similar terms: CJEU, case 187/80, *Merck & Co. Inc. v Stephar BV and Petrus Stephanus Exler*, ECLI:EU:C:1981:180, pt 9–10; CJEU, case 19/84, *Pharmon BV v Hoechst AG*, ECLI:EU:C:1985:304, pts 26; CJEU, case C-235/89, *Commission of the European Communities v Italian Republic*, ECLI:EU:C:1992:73, pt 17; CJEU, case C-191/90, *Generics (UK) Ltd and Harris Pharmaceuticals Ltd v Smith Kline & French Laboratories Ltd*, ECLI:EU:C:1992:407, pt 23; CJEU, joined cases C-267/95 and C-268/95, *Merck & Co. Inc., Merck Sharp & Dohme Ltd and Merck Sharp & Dohme International Services BV v Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd and Beecham Group plc v Europharm of Worthing Ltd*, ECLI:EU:C:1996:468, pt 30; CJEU, case C-316/95, *Generics BV v Smith Kline & French Laboratories*, ECLI:EU:C:1997:347, pt 19. See also CJEU, case C-235/89, *Commission of the European Communities v Italian Republic*, ECLI:EU:C:1992:73, pt 17 (submitting that the "specific subject-matter of patents for the product of new plant varieties is similar [to patent's]").

[127]CJEU, case 187/80, *Merck & Co. Inc. v Stephar BV and Petrus Stephanus Exler*, ECLI:EU:C:1981:180, pt 10.

[128]CJEU, joined cases C-403/08 and C-429/08, *Football Association Premier League Ltd and Others v QC Leisure and Others (C-403/08) and Karen Murphy v Media Protection Services Ltd (C-429/08)*, ECLI:EU:C:2011:631, pts 108–109.

Prevention of parallel imports is generally not either held to protect the specific subject-matter of patents.[129] On a theoretical level, this is not necessarily true: by allowing parallel imports, the Court—in many situations—effectively hinders geographic price discrimination, although differential pricing techniques could often boost profits.[130] Such profit expansion could, in turn, offer an improved reward "for the creative effort of the inventor" and, as such, advance the patent's subject-matter.[131] Furthermore, differential pricing may expand output levels, potentially generating not only mere economic rewards to the author, but also other forms of recognition and credit (i.e., the sense of accomplishment of authors with a large reading audience).[132] In this regard, though in the context of copyrights, Rub suggests that, rather than curbing price discrimination, restrictions should have regard to other, more harmful incentives (e.g., the duration of the IP right).[133]

However, price discrimination may also provoke exorbitant incentives for IP holders,[134] in turn inducing excessive market entry and, ergo, wasted resources.[135] Additionally, while monopolistic undertakings generally capture a higher fraction of consumer surplus and profit than under a uniform pricing system[136] as firms pursue the same profit maximization principle with less constraints,[137] this is not necessarily the case for (im)perfectly competitive markets. In the latter markets, discriminatory

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[129] CJEU, case 15–74, *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc.*, ECLI:EU:C:1974:114, pt 15.

[130] It may be added that price discrimination is not always beneficial for rightsholders: "[l]owering price for the relatively poor too much may hurt copyright owners, both because of the danger of arbitrage and because poor individuals who would have purchased the relevant product in any event will no longer have to pay as much for it." See M. Abramowicz, An Industrial Organization Approach to Copyright Law, William & Mary Law Review 2004(46-1), p. 106.

[131] See W. Kerber, Exhaustion of Digital Goods: An Economic Perspective, Zeitschrift fuer Geistiges Eigentum/Intellectual Property Journal 2016(8-2), p. 157.

[132] For instance, with respect to monopolistic third-degree price discrimination (which includes geographic discriminatory pricing), differential prices would enhance total welfare if they succeed in raising the provider's sales and output levels, for instance, when the monopolist serves markets that would otherwise not be served. See, among many others, S. K. Layson, Third-Degree Price Discrimination, Southern Economic Journal 1994(61-2), p. 323.

[133] G. A. Rub, Rebalancing Copyright Exhaustion, Emory Law Journal 2015(64), p. 765 (footnote 102).

[134] W. Kerber, Exhaustion of Digital Goods: An Economic Perspective, Zeitschrift fuer Geistiges Eigentum/Intellectual Property Journal 2016(8-2), p. 158.

[135] M. Abramowicz, An Industrial Organization Approach to Copyright Law, William & Mary Law Review 2004(46-1), pp. 72–73.

[136] A. Goolsbee, S. Levitt and C. Syverson, Microeconomics, Worth Publishers 2012, p. 396; Q. Liu and K. Serfes, Third-Degree Price Discrimination, Journal of Industrial Organization Education 2010(5-1), p. 3; P. Simshauser and P. Whish-Wilson, Price discrimination in Australia's retail electricity markets: An analysis of Victoria & Southeast Queensland Energy Economics 2017(62), p. 94; J. Tirole, The Theory of Industrial Organization, MIT Press 1988, p. 133.

[137] K. Ghosh Dastidar, On Third-Degree Price Discrimination in Oligopoly, The Manchester School 2006(74-2), p. 233.

prices may, in fact, be lower than those charged in systems with one price, leading to lower profits (and intensified competition). In such circumstances, both the effects on welfare *and* on profit are ambiguous.[138] To take a less abstract example, a 1992 New York Times article reported the introduction of "everyday low prices" by multiple firms (e.g., Sears, Walmart) as follows: "[a]nalysts say many retailers have undercut their credibility over the last decade by putting merchandise out at full price and marking it down a week later. This practice has not only trained consumers to delay their purchases to avoid paying full price, but it has also beaten profit margins to a pulp."[139]

As usual with price discrimination, reality lies somewhere in the middle. A case-based analysis is indispensable as conclusions on the profits of differential pricing practices typically depend, e.g., on the form of consumer heterogeneity, the goods for sale, and the available instruments of price discrimination.[140] However, one assertion can be made with relative certainty: as opposed to the stance taken by the CJEU, it cannot, simply without any reservation, be ruled out that a limitation of parallel imports never promotes patent rights' subject-matter, given the latter's current phrasing (*inter alia*, "to reward the creative effort of the inventor").

[138]See, on this subject: S. Borenstein, Price Discrimination in Free-Entry Markets, RAND Journal of Economics 1985(16-3), p. 381 (further submitting that "competition among heterogeneous brands and the absence of entry barriers will almost never prevent price discrimination, even when they cause long-run profits to be driven to zero. In fact, when a usable sorting mechanism exists, a firm could be forced to discriminate to avoid losses when competing with other discriminating firms"); K. Ghosh Dastidar, On Third-Degree Price Discrimination in Oligopoly, The Manchester School 2006(74-2), p. 245 (demonstrating that, while welfare effects may be similar in monopoly and oligopoly settings, output and profit effects may differ largely); N. Schulz, Third Degree Price Discrimination in an Oligopolistic Market Würzburg Economic Papers 1999, Nr. 99-6, p. 19, available at https://www.econstor.eu/bitstream/10419/48462/1/309781620.pdf (accessed 8 July 2018) (demonstrating that oligopolistic third-degree discriminatory pricing may lead to unambiguously lower prices); P. Papandropoulos, How should price discrimination be dealt with by competition authorities? Concurrences 2007(3), p. 36 (stating that consumers may benefit from price discrimination in competitive markets, as it results in a decrease of firms' profits and hence in 'intensified competition'); P. Simshauser and P. Whish-Wilson, Price discrimination in Australia's retail electricity markets: An analysis of Victoria & Southeast Queensland Energy Economics, 2017(62), p. 95 (stressing the ambiguous impact of discriminatory prices on both welfare and profit).

[139]S. Strom, Retailers' Latest Tactic: If It Says $15, It Means $15, The New York Times 29 September 1992. Available at http://www.nytimes.com/1992/09/29/business/retailers-latest-tactic-if-it-says-15-it-means-15.html. Accessed 8 July 2018.

[140]L. A. Stole, Price Discrimination and Competition, In: Armstrong and Porter (eds), Handbook of industrial organization – Volume 3, Elsevier 2007, p. 2292.

#### 16.2.3.2.3 Reverse Engineering and Decompilation

As harmonized through the Software Directive,[141] rightsholders may be able to prevent reverse engineering,[142] as well as decompilation[143] of software.

Reverse engineering is indeed permitted, enabling any person, without prior permission by the original developer, to "observe, study or test the functioning of the program in order to determine the ideas and principles which underlie any element of the program." Such reverse engineering can nonetheless only occur in a legal manner if done upon "performing any of the acts of loading, displaying, running, transmitting or storing the program" which the person is allowed to do.[144]

Decompilation, however, is only permitted insofar as it is "indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with other programs." In addition, decompilation must abide by various criteria: (1) the decompilation must be performed by a licensee or a person permitted to use a copy of the program; (2) the decompiler has not yet obtained the information necessary to achieve interoperability; and (3) the decompilation is limited to those parts of the program that are necessary for the obtainment for interoperability.[145] Furthermore, the information obtained during decompilation can only be used for limited purposes related to the interoperability of an independently created program,[146] and a "safeguard clause" stipulates that the decompilation provisions should be interpreted narrowly and not prejudice the rightsholder's legitimate interests.[147] Despite the abundance of conditions, considering their important encouragement of open systems, these provisions do seem to strike an adequate balance between (the investments of) original software developers, other developers, users, and the public domain/interest.[148] Further

[141]Directive 2009/24 of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ 2009 L 111, p. 16 (the "Software Directive").

[142]Reverse engineering is also known as 'black box' analysis, entailing a situation in which "a person other than the original program developer is able to determine the ideas and principles that underlie the functional elements of the software by examining its external inputs and outputs." See M. Dizon, Decompiling the Software Directive, the Microsoft CFI case and the I2010 strategy: how to reverse engineer an international interoperability regime, Computer and Telecommunications Law Review 2008(14-8), p. 214.

[143]On this point, Dizon notes that "in certain situations, external black box analysis is inadequate to obtain interoperability information, and it is necessary to access and study the code and inner workings of the software itself. This form of reverse engineering is called decompilation." See M. Dizon, Decompiling the Software Directive, the Microsoft CFI case and the I2010 strategy: how to reverse engineer an international interoperability regime, Computer and Telecommunications Law Review 2008(14-8), p. 214.

[144]Article 5(3) of the Software Directive.

[145]Article 6(1) of the Software Directive.

[146]Article 6(2) of the Software Directive.

[147]Article 6(3) of the Software Directive; M. Dizon, Breaking and remaking law and technology: A socio-techno-legal study of hacking, doctoral thesis Tilburg University 2016, pp. 252–253.

[148]M. Dizon, Decompiling the Software Directive, the Microsoft CFI case and the I2010 strategy: how to reverse engineer an international interoperability regime, Computer and Telecommunications Law Review 2008(14-8), p. 214.

promoting such balance, the Court has likewise highlighted that the right to reverse engineering or decompilation cannot be waived by contract; if any such stipulations are bargained, they are deemed null and void.[149]

#### 16.2.3.3 Copyright

##### 16.2.3.3.1 Extension to Intangible Works, Including Services

Generally, the intra-EU exhaustion regime does not apply to *intangible* copyrighted works.[150] For instance, in *Coditel*, a cable company had broadcasted a film on a German TV channel, which could likewise be viewed on Belgian territory. In Belgium, however, a different company had obtained an exclusive license to distribute the film for seven years, with respect to both Belgian cinema and television.[151] As the case did not involve any cross-border transfer of *goods*, it was assessed on the basis of the free provision of services.[152] The CJEU provided that—as opposed to books or records, where disposal to the public was held inseparable from the circulation of the products' material form (with the rise of e-books and music streaming services, this argument may nonetheless be outdated)—cinematographic content falls within "the category of literary and artistic works made available to the public by performances which may be infinitely repeated."

Therefore, the Court continued, copyright proprietors have a legitimate wish to require fees for any screening of the protected films—based on performance numbers—and in granting authorization for broadcasting only after the movie has been released in cinemas for a while. Even stronger, obtaining such fees forms part of "the essential function of copyright in this type of literary and artistic work."[153] As a result, it was held that a copyright licensee of a film may rely on his IP rights if the film is broadcasted in another Member State by a third party, with the permission of the original copyright proprietor, if the film screening can be viewed on the licensee's assigned territory.[154] Hence, such copyright-induced territoriality—by means of exclusive licensing agreements between rightsholders and service

[149]CJEU, case c-406/10, *SAS Institute Inc. v World Programming Ltd*, ECLI:EU:C:2012:259, pts 50–55.

[150]F. Simonelli, Combating Consumer Discrimination in the Digital Single Market: Preventing Geo-Blocking and Other Forms of Geo-Discrimination, European Parliament – Directorate General for Internal Policies 2016, No IP/A/IMCO/2016-06 – PE 587.315, p. 17.

[151]CJEU, case 62/79, *SA Compagnie générale pour la diffusion de la télévision, Coditel, and others v Ciné Vog Films and others*, ECLI:EU:C:1980:84, pt 5.

[152]The justification assessment is identical to the evaluation under the free movement of goods; *id.* at pt 15.

[153]CJEU, case 62/79, *SA Compagnie générale pour la diffusion de la télévision, Coditel, and others v Ciné Vog Films and others*, ECLI:EU:C:1980:84, pts 12–14.

[154]*Id.* at pt 18.

providers—prevents parallel trade for the distribution of content (and territorially partitions the EU along these exclusive lines).[155]

Similarly, in *Warner Brothers v Christiansen*, a parallel importer had bought video cassettes on UK territory in order to rent them out in Denmark. In the latter Member State, however, consent of the copyright proprietor was required to rent out video cassettes, while in the UK no such legislation was established.[156] The Danish law was, by the Court, justified on the basis of Article 36 TFEU—regardless of the fact that the proprietor had legally marketed the video cassettes on the market of another Member State—considering that "by authorizing the collection of royalties only on sales to private individuals and to persons hiring out video-cassettes," copyright proprietors cannot be guaranteed remuneration which reflects the number of rental occasions and which secures a "satisfactory share of the rental market."[157] Hence, as mentioned earlier, a copyright proprietor does indeed not necessarily exhaust his rights to authorize or prohibit a film rental when the movie is sold or in any other way distributed in another Member State.[158] Likewise, in Belgium, the Court of First Instance of Ghent held that "[t]he rule [of exhaustion] has to be understood in the light of the substantial difference between the (actual) property right and the (material) support (i.e., a CD-ROM, a floppy disk, etc.), on the one hand, and the (intellectual) property right on the (immaterial) work (i.e., the computer program as such) that lies (as a copy) herein, on the other hand."[159] This was also confirmed by the Commercial Court of Brussels.[160]

In *Football Association Premier League*, the CJEU held that the payment of different premiums, by broadcasters, to the rightsholders of British Premier League football matches, in order to guarantee territorial exclusivity, resulted in artificial price differences between the partitioned national markets. Therefore, such premiums were not considered to constitute appropriate remuneration and

[155]F. Simonelli, *Combating Consumer Discrimination in the Digital Single Market: Preventing Geo-Blocking and Other Forms of Geo-Discrimination*, European Parliament – Directorate General for Internal Policies 2016, No IP/A/IMCO/2016-06 – PE 587.315, pp. 17–18.

[156]CJEU, case 158/86, *Warner Brothers Inc. and Metronome Video ApS v Erik Viuff Christiansen*, ECLI:EU:C:1988:242, pts 2–5.

[157]CJEU, case 158/86, *Warner Brothers Inc. and Metronome Video ApS v Erik Viuff Christiansen*, ECLI:EU:C:1988:242, pts 15 and 19. See also, reiterating these principles, CJEU, case C-61/97, *Foreningen af danske Videogramdistributører, acting for Egmont Film A/S, Buena Vista Home Entertainment A/S, Scanbox Danmark A/S, Metronome Video A/S, Polygram Records A/S, Nordisk Film Video A/S, Irish Video A/S and Warner Home Video Inc. v Laserdisken*, ECLI:EU:C:1998:422, pt 15.

[158]C. Seville, EU Intellectual Property Law and Policy, Edward Elgar Publishing 2016, p. 419.

[159]See Court of First Instance of Ghent 23 September 2009, A&M 2010(1), p. 48. Free translation derived from J. Clinck and B. Docquir, Belgium, In: Kilpatrick, Kobel and Këllezi (eds), Compatibility of Transactional Resolutions of Antitrust Proceedings with Due Process and Fundamental Rights & Online Exhaustion of IP Rights, Springer 2016, p. 517.

[160]Commercial Court of Brussels 20 October 2015, *Xerox Corporation v Impro Europe B.V.B.A. and Xerox N.V.* I.R.D.I. 2016(4), p. 335 (pt 34).

conflicted with the primary aim of the Treaty (i.e., the establishment of an internal market).[161] Additionally, in *UsedSoft v Oracle*, the Court extended the scope of exhaustion to distribution rights of a computer program copy as the copyright holder had allowed, in return for remuneration, the use of that copy for an unlimited period after having been downloaded by the user from the Internet onto a data carrier.[162]

Some scholarship interprets *Football Association Premier League* and *UsedSoft* as a move toward the expansion of exhaustion to situations involving services.[163] This is not necessarily the case.[164] First, one may argue that *Football Association Premier League* is limited to satellite broadcasts of football matches, which are not covered by copyright *sensu stricto*; as such, the impact of the case on copyright or even IP exhaustion is at least ambiguous.[165] Second, a number of EU harmonization initiatives—e.g., the InfoSoc[166] or Rental[167] Directives—submit that exhaustion does not apply to various (online, rental, and other) services. Similarly, the CJEU held in 2015 that "exhaustion of the distribution right applies to the *tangible object* into which a protected work or its copy is incorporated if it has been placed onto the market with the copyright holder's consent."[168] Third, in *UsedSoft v Oracle*, the transfer of ownership of a copy of a computer program was only considered as

[161]CJEU, joined cases C-403/08 and C-429/08, *Football Association Premier League Ltd and Others v QC Leisure and Others (C-403/08) and Karen Murphy v Media Protection Services Ltd (C-429/08)*, ECLI:EU:C:2011:631, pt 107 (elaborating in pt 33 that, subsequent to an open competitive tender procedure, "[w]here a bidder wins, for an area, a package of broadcasting rights for the live transmission of Premier League matches, it is granted the exclusive right to broadcast them in that area. This is necessary, according to FAPL, in order to realise the optimum commercial value of all of the rights, broadcasters being prepared to pay a premium to acquire that exclusivity as it allows them to differentiate their services from those of their rivals and therefore enhances their ability to generate revenue").

[162]CJEU, case C-128/11, *UsedSoft GmbH v Oracle International Corp.*, ECLI:EU:C:2012:407, pt 72.

[163]C. M. Stothers, The European internal market: exhaustion plus, In: Calboli and Lee (eds), Research Handbook on Intellectual Property Exhaustion and Parallel Imports, Edward Elgar Publishing 2016, pp. 181–184.

[164]See, in the same sense, T.F. Aplin and J. Davis, Intellectual Property Law: Text, Cases, and Materials, Oxford University Press 2017, p. 41 ("[r]ecent CJEU jurisprudence suggests that . . . exhaustion is limited to tangible objects").

[165]CJEU, joined cases C-403/08 and C-429/08, *Football Association Premier League Ltd and Others v QC Leisure and Others (C-403/08) and Karen Murphy v Media Protection Services Ltd (C-429/08)*, ECLI:EU:C:2011:631, pts 98–99 ("[s]porting events cannot be regarded as intellectual creations classifiable as works within the meaning of the Copyright Directive").

[166]Recital 29 and Article 3 of the InfoSoc Directive.

[167]The Rental Directive submits in Article 1(1) and (2) that the "right to authorise or prohibit the rental and lending of originals and copies of copyright works . . . shall not be exhausted by any sale or other act of distribution of originals and copies of copyright works and other subject matter."

[168]Emphasis added. See CJEU, case C-419/13, *Art & Allposters International BV v Stichting Pictoright*, ECLI:EU:C:2015:27, pt 40.

triggering exhaustion due to the applicable Computer Programs Directive[169] explicitly covering both tangible and intangible copies.[170] As the Computer Programs Directive constituted *lex specialis* to the InfoSoc Directive, the latter could not be applied; nevertheless, the CJEU highlighted that the InfoSoc Directive certifies that "[t]he question of exhaustion does not arise in the case of services and on-line services in particular."[171] Hence, if the facts would have fallen outside the scope of the Computer Programs Directive, the verdict may have been very different.[172]

Finally, *UsedSoft v Oracle* itself is quite restrictive in its language (e.g., "the use of that copy for an unlimited period after having been downloaded by the user from the Internet onto a data carrier"). In this regard, Ubertazzi rightly questions the consequences for "e-Books or MP3 files, streaming and cloud computing operations, and subscription based models where buyers are granted access to a copy of the software for a limited period of time after the payment of an annual or other periodic fee," concluding that, if such transactions are deemed to constitute services, intra-EU exhaustion cannot be applied.[173]

#### 16.2.3.3.2 Consequences of the Copyright Exhaustion Regime for Price Discrimination Strategies

Price-discriminating firms can still limit arbitrage through various methods. For example, firms may capitalize on the *nature* of the product: preventing resale, for instance, is generally easy and inexpensive for a variety of (personal) services as many of them are to be "consumed" instantly upon their purchase (e.g., watching a theater-movie screening). Additionally, firms may engage in *product* differentiation techniques, setting different prices for different versions of the product (e.g., by selling software with limited possibilities for non-commercial users at a lower price, relative to pricier, more comprehensive software for enterprises).[174]

Combining these two methods, a hybrid strategy may come to existence: by transforming goods into (differentially priced) services (while either (1) eliminating the supply of the good altogether; or (2) raising the prices of the goods relative to the services, to reflect expected losses due to arbitrage), price discriminators can more successfully limit instances of arbitrage. Indeed, parallel trade in services would be

[169] Article 4(2) of the Computer Programs Directive.

[170] Article 1(2) *juncto* Recital 7 of the Computer Programs Directive.

[171] CJEU, case C-128/11, *UsedSoft GmbH v Oracle International Corp.*, ECLI:EU:C:2012:407, pts 54 and 56.

[172] CJEU, case C-128/11, *UsedSoft GmbH v Oracle International Corp.*, ECLI:EU:C:2012:407, pt 45.

[173] Footnotes in citation omitted. See B. Ubertazzi, The Principle of Free Movement of Goods: Community Exhaustion and Parallel Imports, In: Stamatoudi and Torremans (eds), EU Copyright Law: A Commentary, Edward Elgar 2014, p. 47.

[174] Example based on H. R. Varian, Price Discrimination, In: Schmalensee and Willig (eds), Handbook of industrial organization – Volume I, Elsevier 1989, p. 599 (comparing student editions of software with standard versions).

more difficult to attain than the resale of goods: as highlighted by Fink, services require a certain proximity of the supplier to the purchaser, and, as domestic languages and/or standards may differ, resold services may not be wholly substitutable relative to the original service (even when, e.g., provided by the reseller under the same trademark as the original product).[175]

Naturally, not all goods can be transformed into services. For instance, it would be difficult to imagine an economically efficient and popularly accepted scheme in which pharmaceuticals are converted into a serviced variant. Undoubtedly, for certain non-routine pharmaceuticals (e.g., vaccines), firms may be able to require pharmacists or hospital professionals to administer immediate consumption upon purchase. For many other drugs, however, such schemes would be frowned upon or overly impractical (if not impossible to attain) on larger scales. Nevertheless, current technology *does* enable a smooth transition of diverse other commodities into services. To provide one of many examples, firms may decide to broadcast or perform visual and audio content (e.g., by screening movies in theaters or through platforms such as Spotify and Deezer, or Netflix and Hulu), rather than by selling such objects in the "traditional" way (e.g., through the sale of movies on Blu-Rays or of albums on LP records).[176]

What is more, the strategy of transforming goods into services is particularly relevant from an EU legal perspective as the latter framework appears to support such an approach on various occasions. Admittedly, for computer programs, limitation of arbitrage emerges to be somewhat onerous, as harmonization in this field has rendered the EU exhaustion doctrine applicable to both "tangible" and "intangible" computer programs. From this legal viewpoint, it would make little difference if technology companies combine tangible items with a variety of services (e.g., in the context of cloud computing).

However, in other scenes (most notably the cinematographic industry), the current regime effectively enables entities to limit arbitrage by, e.g., safeguarding territorial segregation via exclusive license agreements, protecting rightsholders against rental and lending activities initiated by third parties, and, generally, turning a semi-blind eye on copyright enforcement against parallel trade of online and offline services. The combination of these legal benefits with the nature of such products, which already prove challenging to resell, provides price discriminators with a strong set of instruments for efficient market segmentation. The fact remains, however, that such facilitative rules do not necessarily prove helpful in light of establishing an EU single market; if anything, it furthers the impression of an incoherently applied ambition to remove trade barriers.

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[175] C. Fink, Entering the Jungle of Intellectual Property Rights Exhaustion and Parallel Importation, In: Fink and Maskus (eds), Intellectual Property and Development – Lessons from Recent Economic Research, World Bank – Oxford University Press 2005, p. 184 (see note 1).

[176] See also S. Ghosh, The Implementation of Exhaustion Policies – Lessons from National Experiences, ICTSD Issue Paper 2013, No 40, pp. 10 and 12.

#### 16.2.3.3.3 Approaches to Geo-Blocking

Finally, in the framework of this report, the various EU instruments governing geo-blocking deserve further elaboration. Article 101 TFEU and its national variant[177] prohibit agreements restricting competition, with the Block Exemption Regulation deeming as hardcore restrictions the agreements that restrict the territories or customers to whom a distributor can sell.[178] The Guidelines accompanying the Block Exemption Regulation do highlight that territorial restrictions on the online activities of distributors are permitted when such activities "would lead to active selling into, for instance, other distributors' exclusive territories or customer groups."[179] In *Premier League*, the Court has already suggested that territorial exclusivity in licensing agreements do not merit absolute protection from competition law.[180] However, when not based on an agreement or insofar as no dominance is involved,[181] it is difficult to bring unilateral geo-blocking under the scope of national and supranational competition rules. The Services Directive,[182] likewise transposed into Belgian law,[183] stipulates that recipients of services are not to be made subject to discriminatory requirements based on their nationality or place of residence.[184] Nevertheless, this provision is seldom applied, considering various uncertainties with regard to its justification grounds. Therefore, a Geo-Blocking Regulation[185] was adopted, which prohibits certain cross-border discrimination (e.g., blocking, limiting, or modifying the modalities of access) against consumers on the basis of their nationality, place of residence, or establishment upon purchasing goods or services.[186] In addition, Regulation 2017/1128 provides users with the possibility to

[177] Article IV.1, pt 1 of the BCEL.

[178] Article 4 of Regulation 330/2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ 2010 L 102, p. 1.

[179] Guidelines on Vertical Restraints, OJ 2010 C 130, p. 1 (pt 53).

[180] CJEU, joined cases C-403/08 and C-429/08, *Football Association Premier League Ltd and Others v QC Leisure and Others (C-403/08) and Karen Murphy v Media Protection Services Ltd (C-429/08)*, ECLI:EU:C:2011:631, pts 115–116.

[181] See, e.g., CJEU, Joined cases C-468/06 to C-478/06, *Sot. Lélos kai Sia EE and Others v GlaxoSmithKline AEVE Farmakeftikon Proïonton, formerly Glaxowellcome AEVE*, ECLI:EU:C:2008:504.

[182] Directive 2006/123 of the European Parliament and of the Council of 12 December 2006 on services in the internal market, OJ 2006 L 376, p. 36 (the "Services Directive").

[183] CJEU, joined cases C-403/08 and C-429/08, *Football Association Premier League Ltd and Others v QC Leisure and Others (C-403/08) and Karen Murphy v Media Protection Services Ltd (C-429/08)*, ECLI:EU:C:2011:631, pts 134–146.

[184] Article 20(1) and (2) of the Services Directive.

[185] Regulation (EU) 2018/302 of the European Parliament and of the Council of 28 February 2018 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market and amending Regulations No 2006/2004 and (EU) 2017/2394 and Directive 2009/22, OJ 2018 L 60, p. 1 (the "Geo-Blocking Regulation").

[186] Articles 1, 3, and 4 of the Geo-Blocking Regulation.

access portable services to which they have subscribed in an EU Member State when temporarily residing in another Member State.[187] Nevertheless, the principles of exclusivity and territoriality remain prominent in European and national copyright laws, allowing rightsholders—save for situations of exhaustion—to territorially limit their licensing schemes in a legal manner.[188] The European Parliament likewise underscores the importance of territoriality in copyright, highlighting that, e.g., "financing, production and co-production of films and television content depend to a great extent on exclusive territorial licences."[189]

### 16.2.4 Right to Repair and Product Liability

With regard to responsibilities of repair, in the automobile industry, harmonization exists in the form of Regulation 595/2009.[190] The latter instrument orders manufacturers to provide unrestricted access to maintenance and repair information, as well as diagnostic equipment, and to provide a "standardised, secure and remote facility" to allow independent repairers to complete operations.[191] The battery market has also been partially opened up through the Battery Directive,[192] likewise transposed into Belgian law,[193] requiring Member States to ensure that manufacturers of appliances allow end users to readily remove waste batteries and accumulators. If end users are not able to enact such removals, manufacturers must ensure that independent, qualified professionals are able to do so. These appliances must then contain instructions on the safe removal of the batteries and

[187] Articles 1 and 3 of Regulation (EU) 2017/1128 of the European Parliament and of the Council of 14 June 2017 on cross-border portability of online content services in the internal market, OJ 2017 L 168, p. 1.

[188] CJEU, case 262/81, *Coditel SA, Compagnie générale pour la diffusion de la télévision, and others v Ciné-Vog Films SA and others*, ECLI:EU:C:1982:334, pts 15–16.

[189] European Parliament resolution of 9 July 2015 on the implementation of Directive 2001/29 of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (2014/2256(INI)), pts 6, 7, and 13.

[190] Regulation No 595/2009 of the European Parliament and of the Council of 18 June 2009 on type-approval of motor vehicles and engines with respect to emissions from heavy duty vehicles (Euro VI) and on access to vehicle repair and maintenance information and amending Regulation, OJ 2009 L 188, p. 1.

[191] See Article 6 of Regulation No 595/2009.

[192] Directive 2013/56/EU of the European Parliament and of the Council of 20 November 2013 amending Directive 2006/66 of the European Parliament and of the Council on batteries and accumulators and waste batteries and accumulators as regards the placing on the market of portable batteries and accumulators containing cadmium intended for use in cordless power tools, and of button cells with low mercury content, and repealing Commission Decision 2009/603, OJ 2013 L 329, p. 5 (the "Battery Directive").

[193] Koninklijk besluit van 27 maart 2009 inzake het op de markt brengen en de informatie voor de eindgebruikers van batterijen en accu's, en tot opheffing van het koninklijk besluit van 17 maart 1997 inzake batterijen en accu's die gevaarlijke stoffen bevatten, *BS* 7 April 2009 (the "Royal Decree of 27 March 2009").

accumulators.[194] In addition, if, at the time of product delivery, the delivered goods are not in conformity with the agreement, the seller is obliged to "have the goods brought into conformity free of charge by repair or replacement."[195] The seller remains liable to repair or replace where lack of conformity becomes apparent within two years from the delivery of goods.[196]

As demonstrated in the 2012 arrangement between Apple and Test-Achats before the Brussels Commercial Court, the different modalities of legal and commercial guarantees comprise vital information to be provided to consumers.[197] Additionally, the seller and buyer can agree on the period after which the former should be notified about the non-conformity, yet such period cannot be shorter than two months subsequent to discovery.[198] Unless impossible or disproportionate, the consumer then has the right to opt for repair or replacement. Whichever the choice, such repair or replacement shall be enacted within a reasonable time and without any significant inconvenience to the consumer.[199] The seller is only obliged to provide the statutory guarantee; consumers do not have a right to the commercial variant, which is based on the freedom of contract. Currently, however, there is no explicit right to repair in the European Union. In addition, there exists no obligation on the seller to provide replacement parts or continuous (software) updates outside of the legally imposed warranty period of two years. However, the European Parliament has recently adopted a resolution highlighting that "repairs and spare parts should be made more readily accessible" and calling on the Commission to promote product repairability (e.g., by standardizing spare parts and tools necessary for repair)[200]; this has generally been perceived as a move toward introducing a right to repair.

Though not authoritative, the Free Software Foundation Europe has argued that rooting one's (e.g., smartphone) device and replacing the original operating system with new software does not generally void the statutory guarantee provided by the Guarantees Directive. In fact, it is submitted that the two-year compulsory warranty keeps existing, unless the seller can prove that "modifying the software,

[194] Article 11 of the Battery Directive; Article 7 Royal Decree of 27 March 2009.

[195] Article 3 of the Directive 1999/44 of the European Parliament and of the Council of 25 May 1999 on certain aspects of the sale of consumer goods and associated guarantees (the "Guarantees Directive"); Articles 1649ter–1649quater of the Belgian Civil Code (the "BCC").

[196] Article 5 Guarantees Directive; Article 1649quater, pt 1(1) of the BCC.

[197] Test Aankoop, Rechtszaak van Test-Aankoop tegen Apple: een schriftelijk akkoord en enkele eisen voor de toekomst, Test Aankoop 21 March 2014. Available at https://www.test-aankoop.be/action/pers%20informatie/persberichten/2014/rechtszaak-van-test-aankoop-tegen-apple-een-schriftelijk-akkoord-en-enkele-eisen-voor-de-toekomst. Accessed 8 July 2018. See, in this regard, also Article 1649septies BCC (on information to be mentioned in the guarantee), Articles VI.100, 10° (prohibiting sellers to convince consumers of the commercial nature of statutory guarantee duties) and VI.2, 5° of the BCEL (obliging sellers to "remind" consumers about statutory guarantees).

[198] Article 1649quater, pt 1(1) of the BCC.

[199] Article 3 Guarantees Directive; Article 1649quinquies of the BCC.

[200] Resolution of the European Parliament of 4 July 2017 on a longer lifetime for products: benefits for consumers and companies (2016/2272(INI)).

rooting [the] . . . device or flashing it with some other OS or firmware was the cause for the defect."[201] Indeed, under Belgian law, the seller can escape the guarantee responsibilities by showing that the aforementioned "lack of conformity" is related to faulty use by the user.[202]

The Product Liability Directive[203] and its transposition into Belgian law[204] introduce a system of strict liability for producers of movable products, which are sold to customers in the European Union. However, the producer may escape liability by demonstrating a probability that the defect causing the damage did not exist when the product was put into circulation or that this defect came to existence afterward (which might be easily proven when a user installed unlicensed software on his smartphone).[205] Moreover, the liability of the producer can be reduced or rejected when "the damage is caused both by a defect in the product and by the fault of the injured person or any person for whom the injured person is responsible"[206]; a repairer appointed by the customer might, in certain circumstances, qualify as someone for whom the injured person bears responsibility.[207] In general, Belgian judges maintain considerable autonomy in dividing damage claims even where the injured persons acted negligently.[208]

### 16.2.5 Unfair Commercial Practices and Third-Party Complicity to Breach of Contract

It is possible that, e.g., a licensee oversteps the boundaries of a licensing agreement in cooperation with a third party. In this regard, the Belgian Court of Cassation judged that third parties may be liable for complicity to breach of contract if the following conditions are fulfilled (next to the traditional tortious conditions of damage and causality): (1) there exists a valid agreement between the contracting

[201] M. Šuklje and C. Piana, Does rooting your device (e.g. an Android phone) and replacing its operating system with something else void your statutory warranty, if you are a consumer?, FSFE 6 November 2011. Available at http://fsfe.org/freesoftware/legal/flashingdevices.en.html. Accessed 8 July 2018.

[202] K. Vancoppenolle, De wettelijke garantie en de (on)mogelijkheid om kosten ten laste te leggen van de consument, Jaarboek Marktpraktijken 2014, p. 658.

[203] Council Directive 85/374 of 25 July 1985 on the approximation of the laws, regulations and administrative provisions of the Member States concerning liability for defective products, OJ 1985 L 210, p. 29 (the "Product Liability Directive").

[204] Wet van 25 februari 1991 betreffende de aansprakelijkheid voor produkten met gebreken, *BS* 22 March 1991 (the "Belgian Product Liability Law" or "BPLL").

[205] Article 7(b) of the Product Liability Directive; Article 8(b) of the BPLL.

[206] Article 8(2) of the Product Liability Directive; Article 10, pt 2 of the BPLL.

[207] Article 1384, pt 3 of the BCC; D. Verhoeven, Productveiligheid en productaansprakelijkheid, doctoral thesis University of Antwerp 2017, p. 211.

[208] D. Verhoeven, Productveiligheid en productaansprakelijkheid, doctoral thesis University of Antwerp 2017, p. 567.

parties; (2) one of the parties did not meet its obligations in a culpable manner; (3) the third party was aware of the contractual situation, or should have reasonably been aware of it; and (4) the third party has actively assisted in the breach of contract, or participated in it.[209] If the latter four conditions are fulfilled, a tortuous fault is deemed to exist.[210] Such third-party complicity may likewise be deemed contrary to fair commercial practices and, as such, can be sanctioned on the basis of Article VI.104 of the Belgian Code of Economic Law.[211] The latter provision prohibits any action contrary to fair commercial practices through which an undertaking harms or is able to harm the professional interests of another undertaking.

It should be noted that, in addition to third-party complicity to a breach of contract, various other acts—with relevance for the IP holder—fall under the scope of unfair commercial practices. For instance, in its 2015 judgment, the Court of Appeals of Ghent held that a copyright infringement—consisting in the printing of images, on which the copyright holder had exclusive rights, by a third party on plant pots—may in particular circumstances amount to an unfair commercial practice.[212] Such particular circumstances may relate to parasitic competition; in such an event, an undertaking's reputation is exploited to an extent where the exploiter benefits from the efforts and investments of that undertaking, even though no confusion arises and no detriment is caused to that undertaking. In Belgian jurisprudence, in order to safeguard free competition, parasitic competition is generally only prohibited where three cumulative conditions are met: (1) the copied performance, for which the plaintiff requests protection, should be the result of creative efforts or sufficiently important investments; (2) the copied performance has economic value; (3) the copier or imitator is to derive a direct advantage from the efforts and investments of the other; and (4) the copier or imitator has not put the slightest creative efforts to distinguish his performance from the performance of the other seller.[213]

## 16.3 Concluding Remarks

This report has delved into a number of EU and Belgian legal elements relevant to the protection of IP in on- and offline distribution and after-sales services, with a particular focus on exhaustion. Indeed, as opposed to establishing a system of

[209] Belgian Court of Cassation 22 April 1983, Rechtskundig Weekblad 1983-84, p. 427 (commentary by Eric Dirix).

[210] T. Vuylsteke, Stakingsbevel: sanctie voor overspel in handelsrelaties, Rechtskundig Weekblad 1990-91, p. 244.

[211] *Id.* at 248 and footnotes 58–59 (holding that "third-party complicity to breach of contract is unanimously considered by legal scholarship and case law to be an act contrary to fair commercial practices" – free translation).

[212] Court of Appeals of Ghent 30 May 2016, *W. BVBA v X*, RABG 2017(5), pp. 398–403.

[213] Free translation and citation from R. Steennot and S. Dejonghe, Handboek consumentenbescherming en handelspraktijken, Intersentia 2007, p. 60.

frictionless arbitrage, the intra-EU exhaustion doctrine provides entities with various instruments to curb the parallel imports of products protected by IP rights. Rather than repeating them, a few final reflections on the matter will be added.

First, it should be highlighted that numerous instruments to limit arbitrage remain available. Admittedly, on EU territory, the transportation costs of goods are relatively low, and the status of the EU as a customs union vastly facilitates cross-border movements (including on an administrative level, e.g., within the context of procedures set by the International Road Transport Union). Furthermore, the list of standards harmonized under a European umbrella is ever-growing. Nevertheless, certain transaction costs for arbitrage will (always) remain in place (e.g., taxes, regulatory costs, and other supply restrictions); the current exhaustion doctrine only alleviates a number of them, and to a limited extent. Undertakings will continue to rely on these costs, e.g., as part of their price discrimination strategies. Furthermore, exhaustion does not influence the ability of entities to vertically integrate where profitable.

Second, building further on the notion of differential pricing, firms may engage in alternative degrees and forms of discrimination. Within third-degree price discrimination (i.e., situations in which the market is segmented into different buyer groups with different demands, with each group paying a specific price depending on its respective demand elasticities[214]), undertakings may base themselves on a rich variety of other identifiable attributes that relate to groups' purchase patterns. Indeed, nationality, residence, and location comprise but a few instances of such attributes, leaving many other direct signals for discrimination available (e.g., age, occupation or employer, gender, time of purchase/use, or purchasing history). Similarly, third-degree price discrimination constitutes only one of the feasible degrees of differentiation; firms may also opt for, e.g., second-degree differential pricing (i.e., the practice of setting different prices for the same product, dependent on the purchased number of units, for instance, through quantity discounts[215]). In this regard, undertakings can select differential methods that pertain to the transferability of demand rather than of the commodity; for example, movie studios may, in their rental schemes, decide to differentiate between libraries and individuals.[216] As mentioned by Kerber, rather than excluding price discrimination, exhaustion may stimulate *other* forms of differential pricing.[217]

[214]H. R. Varian, Price Discrimination, In: Schmalensee and Willig (eds), Handbook of industrial organization – Volume I, Elsevier 1989, p. 617; S. Weber and C. Pasche, Price Discrimination, Journal of Industrial Organization Education 2008(2-1:3), p. 6.

[215]D. Gifford and R. Kudrle, The Law and Economics of Price Discrimination in Modern Economies: Time for Reconciliation? UC Davis Law Review 2010(43), p. 1241. See also E. L. Fitzsimmons and E. L. Donahue, Price Discrimination: Toward an Ethical Framework, Creighton Law Review 1992(25), p. 1335 (adding that "generally speaking, any type of quantity discount would be considered second-degree price discrimination provided, of course, the discount was not proportional to the cost of supply").

[216]See, similarly, G. A. Rub, Rebalancing Copyright Exhaustion Emory Law Journal 2015 (64), p. 774.

[217]W. Kerber, Exhaustion of Digital Goods: An Economic Perspective, Zeitschrift fuer Geistiges Eigentum/Intellectual Property Journal 2016(8-2), p. 157.

In part, the above considerations may be explained in light of the EU doctrine's philosophy: rather than being founded on a strong belief in a system of regional exhaustion as such, the framework is shaped and guided by (1) a deeply rooted dismay for market partitioning, discrimination, and trade restrictions between Member States; as well as, simultaneously, (2) respect for the specific subject-matter of IP in general, and that of its constitutive branches in particular (e.g., trademark, copyright, and patent law). These two beliefs sometimes conflict, with the latter, where justified, taking priority over the former. That being said, the system is not free from certain fallacies and internal inconsistencies. Although these deviations may be challenged in light of their effects on the framework's predictability, it is unclear whether—from a welfare point of view—they comprise a welcomed relief or an inefficient distraction (as highlighted by Milgrom: "depending on the demand curve, the monopolist may actually be better off when he is unable to prohibit resale"[218]). In each case, it would, indeed, be erroneous to assume the EU regime's unequivocal support of arbitrageurs or the inviolable loyalty toward the establishment of a genuine EU internal market.

[218]P. Milgrom, An Essay on Price Discrimination, In: Feiwel (ed), The Economics of Imperfect Competition and Employment: Joan Robinson and Beyond, The Macmillan Press 1989, p. 371 (arguing that, "for the case of linear demand, price discrimination leads to the same level of profits as simple monopoly pricing").

# 17 Brazil

Felipe Barros Oquendo

## 17.1 Brazilian Legal Landscape for IPRs

In Brazil, intellectual property is regulated by different legal acts. Trademarks, patents, industrial designs, among others, are protected under the Industrial Property Act (LPI).[1] Copyright,[2] as well as computer programs,[3] are subject to specific legislation.

In the case of trademarks, patents, and industrial designs, LPI explicitly determines the interests that are recognized/granted to the holders of these rights. The patent holder has, for example, the right to prevent and exclude third parties, without his or her consent, from producing, using, selling, or importing for these purposes (i) patented products and (ii) processes or products obtained directly by a patented process, as well as to prevent third parties from contributing to others doing the abovementioned acts.

With respect to trademarks, LPI guarantees their holders their exclusive use throughout the national territory. In addition, these holders have other protected interests, such as (i) the right to transfer their registration or application to third parties, (ii) the right to license their use, (iii) the right to look after the material integrity or reputation of their trademarks.

The interests related to copyright are regulated under Federal Act N. 9.610/1998 (Copyright Act), which establishes that authors have both moral and patrimonial

[1]Federal Act N. 9,279 of 16 May 1996.

[2]Federal Act N. 9.610 of 19 February 1998.

[3]Federal Act N. 9.609 of 19 February 1998.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_17

rights. In the same Act, these two rights are listed, and the scholars understand that it is an exhaustive list.

The interests of holders of computer programs are defined in Federal Act N. 9.609/1998 (Software Act).

For the above rights to be exercised in Brazil, it is important that the intellectual assets are valid and being used, as determined by law. As a rule, there is no provision in the legal text, on the other hand, for external factors, such as the quality of the product sold or the value of the trademark, which positively influence the exercise of intellectual and industrial property rights by its owners.

An exception to this is geographical indications, also regulated by the LPI. For the granting and maintenance of GIs, one must prove certain qualities of products and services related to the geographical region indicated. Another exception is the certification mark, linked to parameters of quality that must be strictly observed.

## 17.2 IPRs: Scope of Protection, Geo-Blocking, and Restriction of Online Sales

In Brazil, there is no variation in the scope of trademark protection according to the type of distribution. Regardless of the channels and form of distribution, or even of the way the trademark presents itself to the consumer market, the rights of its holders are identical. It is a universal standard applied to all titleholders, as long as they comply with the legal requirements to obtain and maintain a valid registration.

The LPI, as previously mentioned, guarantees the owner of a trademark the right to its exclusive use throughout the national territory, as well as the possibility of licensing its trademark.

The licensing of a trademark occurs essentially through a specific agreement between the parties. With respect to trademark licensing, Article 139 of the LPI provides that the "owner of a trademark registration or applicant may enter into a license agreement for the use of the trademark, *without prejudice to its right to exercise effective control over the specifications, nature and quality of their products or services*."[4]

Thus, the trademark licensor is responsible for and has a right to exercise control with respect to the nature and quality of the services/products identified by the trademark.

Brazil is a member of the TRIPS agreement, which establishes the prohibition of restrictions contained in license agreements that may in some way constitute an abuse of intellectual property rights, ensuing adverse effects on competition and the relevant market. Hence, attention must be paid to a clause restricting territory, online sales, etc., which may be considered abusive in an eventual court case.

With respect specifically to the possibility of subsequent sales, either online or offline, Article 132 of the LPI clearly states that the trademark holder cannot "forbid

[4]Emphasis added.

the free circulation of product placed on the internal market (i.e. Brazilian market), either by himself or by others with his consent."

Thus, in principle, under Brazilian law, the titleholder's right to prevent the circulation of the product that incorporates his or her brand is exhausted with the first sale in Brazilian territory (national exhaustion). The rationale behind this disposition of law is that the holder has already been remunerated with the first sale and cannot restrict the resale of that specific product.

Nevertheless, as already stated, a trademark owner can determine how his or her licensees (not the consumers who bought the products) will use his/her trademark. In this sense, it is widely accepted that the licensor can exercise control over the specifications of the trademark, how it appears in products, websites, etc., except for unfair terms, to be determined on a case-by-case basis in view of the specific circumstances of the license agreement and the market to be exploited. It is not uncommon for trademark license agreements in Brazil to have a specific section that outlines the way in which trademarks shall be used, which should normally follow strict specification standards, color pallets, and form of presentation and give the licensor the right to audit production and billing.

On the other hand, the law does not determine how or if the trademark owner can regulate the use of his or her trademark by unlicensed third parties who are, in an appropriate way, exercising the subsequent sale right of the products identified by that trademark.

It seems clear, at this point, that the logic that regulates the protection of trademarks must be applied. If the holder understands that, in any way, this use violates his or her rights to the integrity or reputation of the trademark, he/she may take appropriate measures to regularize it.

In this sense, geo-blocking should raise some serious issues concerning the limits of rights of trademark holders. Characterized by the manipulation of the availability of offers, it basically consists of blocking a product and/or service offer to certain users while making it available to others, employing a geographical parameter. By means of geo-blocking, the supplier may end up with a refusal to sell goods or services to a certain group of consumers, which can be characterized as an abusive practice by the Brazilian Consumer Protection Code,[5] Article 39, items II and IX:

> Article 39. The supplier of products or services is prohibited, among other abusive practices:
>
> (...);
>
> II – to refuse to meet the demands of consumers, in the exact measure of their stock availability, and also, in accordance with customs and customs;
>
> (...);
>
> IX – to refuse the sale of goods or services, directly to those who are willing to acquire them upon prompt payment, except in cases of intermediation regulated by special laws;

[5]Federal Act N. 8,078 of 11 September 1990.

It can also be argued that geo-blocking violates Article 6, III, of the Brazilian Consumer Protection Code, regarding clear information on products and services, which is subtracted from users in a manner incompatible with objective good faith, according to Articles 4, III, and 51, IV, of the same law.[6]

In addition, the Civil Rights Framework for the Internet[7] provides that the following rights are guaranteed to the user of online services.[8]

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[6]Article 6 – Brazilian Consumer Rights Code:

(...);

III - adequate and clear information on the different products and services, with a correct specification of quantity, characteristics, composition, quality, incidental taxes and price, as well as the risks they present;

Article 4. The National Consumer Relations Policy aims at meeting the needs of consumers, respecting their dignity, health and safety, protecting their economic interests, improving their quality of life, as well as transparency and harmony of consumer relations, following the following principles:

(...);

III - harmonization of the interests of participants in consumer relations and compatibility of consumer protection with the need for economic and technological development, in order to make feasible the principles on which the economic order is based (article 170 of the Federal Constitution), whenever based on good faith and balance in the relations between consumers and suppliers;

Article 51. The contractual clauses related to the supply of products and services that are:

(...);

IV - establish obligations considered unfair, abusive, placing the consumer at an unreasonable disadvantage, or incompatible with good faith or equity.

[7]Federal Act N. 12,965 of 23 April 2014.

[8]Article 7 Access to the internet is essential to the exercise of citizenship, and the user is guaranteed the following rights:

(...);

VII - failure to provide third parties with their personal data, including connection records, and access to Internet applications, except by free, express and informed consent or in the cases provided for by law;

VIII - clear and complete information on the collection, use, storage, treatment and protection of your personal data, which may only be used for purposes that:

(a) justify their collection;
(b) are not prohibited by law; and
(c) are specified in service contracts or in terms of use of internet applications;

IX - express consent regarding the collection, use, storage and processing of personal data, which should occur in a prominent way of the other contractual clauses.

In addition, Article 9 of the same legal act stipulates that it is the duty of the supplier to treat isonomically any data packet, without distinction as to content, origin and destination, service, termination, or application. Paragraph 2, items II and IV, of this legal article provides that in the event of traffic discrimination, suppliers must act with proportionality, transparency, and isonomy, offering services under nondiscriminatory commercial conditions.[9]

In some situations, however, content blocking may not consist of a reprehensible conduct on the part of the vendor and can be implemented in a justified manner and considering local rules, such as ensuring the protection of trademarks rights, observing differences related to the civil majority, and, thus, preserving the interests of minors, among others.

According to the Civil Rights Framework for the Internet, Article 18, the Internet connection provider shall not be liable for civil damages for content generated by third parties. In addition, in order to ensure freedom of expression and prevent censorship, Internet application providers will only be held liable if, after a court decision, they fail to act to make infringing content unavailable (Article 19). With respect to copyright and related rights violations, the Civil Rights Framework for the Internet provides that it depends on a specific legal provision, which has not yet been created.

Thus, the holder of intellectual property rights can file a lawsuit against the providers requesting the withdrawal of infringing content, and it will be up to the judiciary to decide whether or not there has been a violation of copyright or industrial property, determining, if necessary, measures to cease the practice of said violation.

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[9] Section I

Network Neutrality

Article 9. The person responsible for transmission, switching or routing has the duty to treat any data packet, regardless of content, origin and destination, service, terminal or application, in an isonomic manner.

(...)

Paragraph 2 In the event of discrimination or traffic degradation provided for in Paragraph 1, the person mentioned in the caput must:

(...);

II - act with proportionality, transparency and isonomy;

(...);

IV - offer services on non-discriminatory commercial conditions and refrain from conducting anti-competitive conduct.

It should be noted that, as far as our research went, there is or was no court case in Brazil concerning geo-blocking or any kind of content limitation based on trademark rights.

Ultimately, Article 6, III, of the Software Act provides that it is not an offense against the rights of the holder of IP rights in and to a computer program "the occurrence of similarity of program to another, preexisting, when due to the functional characteristics of its application, normative and technical precepts, or of limitation of alternative form for its expression."

Thus, we may conclude that the functional analysis of the program is always allowed, granted that it aims at the development of a new similar program. However, the compilation of the binary code from the decoded source constitutes infringement.

## 17.3 Limitations of Legal Protections

To have intellectual property rights over a product exhausted in Brazil, it is necessary that the titleholder (or third party authorized by him or her) of an intellectual property right (IPR) enter the product incorporating its IPR into commerce in the Brazilian market, following the doctrine of the first sale.

The first-sale doctrine upholds the understanding that the titleholder's prerogative to prevent the circulation of the product incorporating his or her trademark or patent is exhausted with the first sale. Underlying this doctrine is the assumption that the titleholder has already been duly remunerated and cannot prohibit or claim participation in subsequent sales of that specific product.

Exhaustion does not require a sale in the legal sense since it could take place through donation (e.g., gift distribution). It does, however, require insertion of the product incorporating the IPRs in the market, which mainly includes the transfer of ownership of the physical good to a consumer, with commercial intention. It does not, however, occur through mere lease or rent since, in such cases, according to the Civil Code,[10] there would be an obligation to return the product, and the titleholder would not lose its property rights and control over the goods incorporating the IPR.

There is no law specifically dealing with exhaustion of rights in Brazil, but the LPI states that protected goods cannot be prevented from circulating on the national market, provided that they are inserted in such market by the titlehoders of the IPR directly or by third parties with their consent (Article 43, IV; Article 68, sections 3 and 4; and Article 132, III). These legal articles refer to products that incorporate patents, registered industrial designs and registered trademarks.

The legislative option, therefore, is that of *national exhaustion*, and this fact is reinforced when considering the amendment of the original wording of Bill No. 824/1991, which matured into the LPI, since in the original bill the expression "external market" was present in an article that would explicitly regulate the

[10]Federal Act N. 10.406 of 10 January 2002.

exhaustion of rights, whereas in the final text of the LPI, such expression has purposefully been deleted.

The Superior Court of Justice (STJ), the highest court for the review of decisions regarding nonconstitutional matters, has issued decisions excepting the national exhaustion principle, provided that the good has been acquired outside of Brazil for personal use or by an unauthorized third party for commercial purposes, granted in this case that this parallel importation has been done for a long time and without opposition from the IPR holder.[11]

Nevertheless, in 2016, the STJ seemingly changed its position by requiring a written contract to characterize consent from the titleholder and to legitimize parallel importation,[12] thus eliminating the possibility of presumed consent. In any event, this matter is far from being settled by the STJ, and currently one could expect decisions in either way, depending on the panel hearing his or her appeal.

Concerning software, Article 10 of the Brazilian Software Act, in its Paragraph 1, establishes that the articles of license agreements that limit the production, distribution, or commercialization of software are null and void.

On the other hand, Article 2, section 5, of the same Act grants the owner of copyright in software the exclusive right to authorize or prohibit commercial leasing. Also, the law explicitly states that this right is not exhausted by the sale, license, or any other form of transfer of the copy of the software.

In an attempt to circumvent exhaustion of rights, the titleholders have established in their sale agreements exclusivity clauses, clauses of territorial restriction, limitations of service in technical assistance, establishment of differentiated guarantees or loss of guarantee in the case of products purchased outside of the country, and various post-sale fences, such as resale or redistribution waiver clauses. However, not all restrictions will be accepted in Brazil[13] since most of these agreements are nonnegotiable, implicating that any clauses that imply the waiver of rights by the adhering party are void (Article 424 of the Civil Code).

The general rule of Brazilian law is that the burden of proof falls on the person who brings the lawsuit. The Civil Procedure Code[14] establishes that the plaintiff is responsible for proving the constitutive fact of his or her right, whereas the defendant must prove any fact that impedes, modifies, or extinguishes plaintiff's rights (Article 373). Hence, whoever claims exhaustion of rights must prove that the product was purchased from the titleholder of IPRs or from someone authorized by him or her.

Yet the Consumer Protection Code establishes the possibility of reversing the burden of proof so that the defendant (service or product provider) and not the

[11] Superior Court of Justice. Ruling on the Special Appeal N. 1200677 / CE.

[12] Superior Court of Justice. Ruling on the Special Appeal N. 1323401/RJ.

[13] São Paulo State Court of Appeals. Appeal N. 1000994-02.2014.8.26.0008. 30th Chamber of Private Rights, ruled on February 25, 2016. São Paulo State Court of Appeals. Appeal N. 1004663-73.2016.8.26.0564. 27th Chamber of Private Rights, ruled on October 18 2016.

[14] Federal Act N. 13,105 of 16 March 2015.

plaintiff (consumer) has the burden of proving that it did not cause damages or infringe the law:

> Article 6. The following are basic consumer rights:
>
> (. . .);
>
> VIII – protection of consumer rights facilitated, by shifting the burden of proof in favor of the consumer in a civil action when the judge finds that the accusation holds truth or when he is unable to satisfactorily fulfill its obligations according to ordinary rules from experiences.

Most scholars believe that it is appropriate to shift the burden of proof when it comes to consumer interests and rights because it is often easier and less costly for the defendant to produce evidence than it is for the consumer. Thus, such an inversion is appropriate, provided that a prior and accurate assessment of consumer hyposufficiency is made, to avoid that the shift of the burden of proof occurs in an irreflected manner.

Brazilian case law, as far as our research went, only handles the exhaustion of specific IP rights, mostly trademarks. We are not aware of any cases that dealt differently with exhaustion of IP rights in traditional industry vis-à-vis online industry.

Yet we should think that Brazilian courts—if called upon to rule a similar case—could construe the license of software as exhausting IP rights in it, as the EU Court of Justice did in *UsedSoft v Oracle*. Contrarily to some other national laws, Brazil does not confine exhaustion of rights in connection with computer programs to a transfer of property (purchase or donation) but defines it by "insertion in the market," which is a term that can be construed to include the license of use.

Corroborating this is the language of Article 2, section 5, of the Brazilian Software Act:

> Section 5. Among the rights guaranteed by this Law, and by the copyright legislation and connected provisions currently in force in Brazil, is included the exclusive right to authorize or prohibit commercial leasing. This right is not exhausted by the sale, license *or any other form of transfer of the copy of the software*.[15]

The highlighted part of the article links exhaustion of rights to the licensing of software and seems to consider the license as a species of "transfer of the copy of the software."

Recently, scholars and lawyers have been discussing the possibility of impeding a product lawfully inserted in the market from being resold in a venue that is deemed incompatible with the trademark's value. In other words, there is a discussion on whether the trademark holder can exercise postsale controls with a basis mainly on protecting the reputation and integrity of its trademark.

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[15]Emphasis added.

For instance, under this doctrine, the owner of a registered trademark for luxury watches could impede the resale of said watches for prices that are considerably lower and on popular venues.

The basis for this proposed doctrine is the defence against dilution of the trademark, as well as the protection of consumers, considering that the secondary market is usually less careful with packaging and information about the product.

However, the Superior Court of Justice has been reaffirming the principle that, after the insertion of the good in the Brazilian market, the titleholder of IPR cannot prevent or control subsequent sales.[16]

The LPI regulates, among other aspects, the repression of unfair competition in Brazil. The main provisions against unfair competition are in Article 195, which establishes as a crime 14 different conducts, and in Article 209, which gives a general rule for the repression of acts of unfair competition that are not considered a criminal offense, that is, that are punishable only in the civil sphere.

Article 195 does not establish as a crime the abuse of trademark rights, even though it criminalizes certain conducts regarding patent and industrial design rights (e.g., Article 195, XIII). However, Article 209's broad language includes punishment for situations of abuse of rights with anticompetitive effects:

> 209. There shall be reserved for the aggrieved party the right to recover damages as compensation for losses caused by acts that violate industrial property rights and acts of unfair competition not set forth in this Act, but that tend to prejudice another person's reputation or business, create confusion among commercial or industrial establishments or service providers, or among the products and services placed on the market.

Article 187 of the Brazilian Civil Code provides as unlawful the abuse of rights in general, which includes the abuse of trademark rights:

> Article 187. The holder of a right which, in exercising it, manifestly exceeds the limits imposed by its economic or social purpose, by good faith or by good customs, also commits an unlawful act.

The Brazilian Antitrust Act,[17] in Article 36, section 3, sections XIV and XIX, expressly provides that the following conducts involving industrial property rights are a violation of the economic order.[18]

[16] Superior Court of Justice: Special Appeal N. 609.047/SP, Special Appeal N. 930.491-SP.

[17] Federal Act N. 12.529, of 30 November 2011.

[18] Article 36. The acts which under any circumstance have as an objective or may have the following effects shall be considered violations to the economic order, regardless of fault, even if not achieved:

> (. . .)

> Section 3 The following acts, among others, to the extent to which they conform to the principles set forth in the caput of this article and its clauses, shall characterize violations of the economic order:

One should bear in mind that the above behaviors are examples; that is, there may be other conducts involving property rights over trademarks that are considered as an infraction to the economic order. In any case, to be considered as an infraction to the economic order, such conduct must also have as an objective or achieve the following effects: to limit, restrain, or in any way injure free competition or free initiative; to control the relevant market of goods or services; to exercise a dominant position abusively.

In any event, abusive exercise of trademark rights is punishable whenever it damages third parties, especially competitors or consumers, regardless of whether it is considered an infringement of the economic order.

There is no guideline from the Brazilian Antitrust Authority (CADE) or any other entity that defines the limits of the application of antitrust law or of unfair competition to agreements involving trademarks. This definition is set on a case-by-case basis, but CADE's position is that its jurisdiction involves acts and conducts that may ultimately affect consumer's well-being and the economy in general. Thus, abusive acts with effects limited to the private parties must be settled by a court action.

An emblematic case in this regard is the recently judged conflict between the National Association of car spare parts producers (ANFAPE) and some automakers, in which CADE decided that it should not analyze whether the enforcement of automakers' rights in and to registered industrial designs of auto parts against producers of spare parts in the secondary market is abusivesince such rights are provided for in the Industrial Property Act and its possible abuse would only have effects between private parties.[19]

There are no limitations in Brazil for the provision of products, including "software as a service."

Yet there are limitations in the Antitrust Law on the sale of goods, price discrimination, the imposition of unfair terms and other conducts, provided that, as already stated, they have as an objective or may have the following effects: to limit, restrain, or in any way injure free competition or free initiative; to control the relevant market of goods or services; and to exercise a dominant position abusively.[20]

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(. . .);

XIV - to monopolize or prevent the exploitation of industrial or intellectual property rights or technology; (. . .);

XIX - to abusively exercise or exploit intellectual or industrial property rights, technology or trademark.

[19] Administrative Procedure N. 08012.002673/2007-51. Decided on 14 March 2018.

[20] Article 36:

The Consumer Protection Code also prohibits to condition the supply of products and services to the acquisition or use of another product or service.[21]

Yet this article is only applicable to consumers and is subject to an analysis of proportionality since the conditioning of a product or service to another product or service is not prohibited in absolute terms and can be justifiable in some cases.

Brazilian law has no right to repair as defined, for example, in United States law.

If the product is durable and has been sold with a defect, Article 18 of the Consumer Protection Code provides an obligation on the supplier of the product to repair it in 30 (thirty) days. After this period, the supplier has the duty to give a new product to the customer, to return the money to him or her, or to make a reduction in the price that is proportional to the defect.

In the case of repairs that are necessary for damages to the product caused by the consumer himself or herself, or arising from regular use, the law does not have any specific indication.

For these cases, there is, first, the possible contractual guarantee provided for in Article 50 of the Consumer Protection Code. The law provides that such a guarantee must be written and "adequately clarify what constitutes the guarantee, as well as the manner, period and place where the consumer may use it and the burden borne by the consumer."

When mentioning such conditions, the law seems to admit that the guarantee can be conditional on an accredited network of technical assistance, which occurs very frequently in Brazil. We are not aware of any judicial decision that has considered this condition illegal or abusive.

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Section 3 The following acts, among others, to the extent to which they conform to the principles set forth in the caput of this article and its clauses, shall characterize violations of the economic order:

IX - to impose on the trade of goods or services to distributors, retailers and representatives, any resale prices, discounts, payment terms, minimum or maximum quantities, profit margin or any other market conditions related to their business with third parties;

X - to discriminate against purchasers or suppliers of goods or services by establishing price differentials or other operating conditions for the sale or provision of services;

XII – to hinder or disrupt the continuity or development of business relationships of undetermined term, because the other party refuses to abide by unjustifiable or anticompetitive terms and conditions;

XVIII - to condition the sale of goods on the acquisition or use of another good or service, or to condition the provision of a service on the acquisition or use of another good or service.

[21] Article 39. Forbidden abusive practices by the products or service provider includes:

I - conditioning product or service delivery to the delivery of another product or service as well as specific quantitative limits without just cause.

With regard to the obligation to keep spare parts for repair of sold products, Article 32 of the Consumer Code provides that.[22]

There is no legal definition of what would be the “reasonable time period” in which the manufacturer or importer should maintain components and spare parts, nor does the law determine that this obligation applies to the owners of intellectual property rights relating to such components or parts.

Court precedents have set that this “reasonable time period” is that of the average expected life of each product. For example, if a television has an estimated life of 10 years, the supplier must keep spare parts or components in stock for 10 years.

Regarding software update, the Brazilian Computer Programs Act determines that the software supplier must inform in a clear way the technical validity period of the version of the marketed software (Article 7) and make available to its users technical services relating to the proper functioning of the software, taking account of its specifications, during the technical validity period of the respective version (Article 8).

Thus, there is no proper duty of the owner of IP rights in a software to make updates available but rather to provide technical assistance for a particular version of the program during its technical validity term.

In Brazil, it is common that consumers bring actions demanding a software update on a particular device, to be able to continue using other applications in their upgraded versions, especially in case of upgraded versions of Apple’s iOS operating system that become incompatible with earlier applications. Our research has revealed that the courts have been ruling against consumers when the failure to update the operating system does not prevent the use of the device with previous versions of the available applications. In other words, there is no duty on the part of the software provider to make updates of the operating systems available unless the absence of such updates implies that the consumer can no longer use the outdated device.

One should bear in mind that according to Article 2 of the Consumer Code, only consumers who use the product or service as final recipients receive special protection under the Code. Cases such as professionals who buy products to be used in services provided to third parties (e.g., a dentist who buys odontological equipment or a DJ who purchases professional music equipment) are not considered to fall within the scope of protection of the Consumer Code.

Moreover, the constitutional rights of consumers in Brazil are not limited to protection against state action and can be invoked against private entities.

Consumer law presumes consumer vulnerability in relation to the time when he or she acquires the relevant goods and services. Acknowledging this inequality, the law considers that the consumer is the protected party under the legislation, so as to

[22] Article 32. Manufacturers and importers must make replacement parts available for as long as the product in question is still being manufactured or imported.

Sole paragraph. When production or importation is halted, the offer of replacement parts must be maintained for a reasonable time period, in the form of the Law.

safeguard the constitutional principle of isonomy in consumer relations. In this way, consumers' interests remain protected against IP owners.

In general terms, consumer interests are the core of the Antitrust Law, which aims at consumer welfare and considers that it is the consumer public that suffers the most when antitrust rules are disregarded. On the other hand, the rules of repression of unfair competition, provided for in the Industrial Property Law, focus on the private interests of competitors and aim to prevent the adoption of measures and behaviors that harm competitive agents.

In my view, the combination of both legal frameworks leads to a reasonable balance in the protection of consumers' rights, even as consumer interests are often considered by the Brazilian courts in actions based solely on intellectual property rights.

## 17.4 Conclusion

Current legislation in Brazil appears to have struck a balance between the interest of consumers and holders of intellectual property rights in the offline market. Despite strong criticism over the adoption of national exhaustion of intellectual property rights and the consequent unlawful parallel importation for commercial purposes, which allows the trademark owner to control distribution in the country, there are no specific economic studies on the impact of this legislative policy.

On the repair of products and replacement of parts, the already cited Administrative Procedure N. 08012.002673/2007-51 has highlighted the problem of the secondary market for spare parts since the enforcement of rights in registered industrial designs prevents in practice dealers in that market from manufacturing parts identical or closely similar to those whose designs were registered with the Brazilian Patent and Trademark Office, except with the payment of royalties that can cut any advantage to the final consumer. After signaling with the conviction of the automakers for abuse of intellectual property rights, CADE finally understood that there would be no such abuse if the enforcement of the exclusive rights takes place within the limits of the Industrial Property Act (LPI).

On the one hand, owners of trademarks duly registered in Brazil will be able to control the sales of products to the Brazilian market due to national exhaustion of IPRs and illegality of parallel importation. On the other hand, postsale control of the products based on trademark rights seems to be prohibited by law and faces obstacles in Consumer Law, Unfair Competition Rules, and Antitrust Law. On the online market, some general rules and principles established by specific legislation also pose a limitation to the owner of IPRs.

Nevertheless, it seems plausible, in some specific circumstances, that the owner of a trademark registration may control the distribution and resale of products even after their first sale in the internal market based on the right to protect the integrity and reputation of his or her trademark, granted by the LPI. This extraordinary postsale control could be even based on the protection of consumers, depending on the risk to their health and well-being posed by the wrongful maintenance of durable goods.

In any event, there is no judicial discussion in Brazil similar to CJEU case C-230/16.[23] This is particularly important since there is no general legal act in Brazil regulating online distribution, which leaves to the courts, in a civil law country, the task of integrating and pondering different dispositions of law and legal principles vis-à-vis the particularities of each case.

In the online and software market, the issue is much more deregulated, and the courts seem to be positioning themselves in a conservative way, by understanding that there is no duty to update computer programs and rejecting the thesis of programmed obsolescence.

It seems that the importance of online sales and of electronic devices with Internet connection and the issue of software upgrading and accessibility to consumers are not yet recognized by the Brazilian courts, especially due to a lack of specific legislation. Nonetheless, in social dynamics, apps, cell phones, and other devices are becoming more and more important, to the point of becoming essential to some business formats. This growing social importance of software and online sales should soon find a legal expression, although there are currently no bills in this regard, as far as our research went.

**Acknowledgements** The rapporteur would like to thank his colleagues from the Study Committee in Competition of the Brazilian Intellectual Property Association – Ms. Julia Davet Pazos, Ms. Barbara Leitão, Ms. Beatriz Vergaça Castro, Ms. Paola Luongo Lorenzetti and Mr. José Mauro Decoussau Machado - for the inestimable aid with research and responding the questions.

[23] *Coty Germany GmbH v Parfümerie Akzente GmbH*, ECLI:EU:C:2017:941.

# Czech Republic

# 18

Radka MacGregor Pelikánová

## 18.1 Introduction

The intellectual property law that is valid and applicable in the territory of the Czech Republic has sources from three legal systems—international, EU, and national.[1] Therefore, the holder of intellectual property rights enjoying protection in the Czech Republic disposes with a set of claims and instruments defending his brands on the Czech market, regardless whether the context is of online and/or offline distribution and/or after-sales service. These rights, as well as claims and instruments defending them, are rather standard and harmonized with the intellectual property law and intellectual property law features prevailing in the EU.[2] Nevertheless, the question of striking a fair balance between such holders of intellectual property rights and consumers are nationally particular, and so, even in the case of the Czech Republic, national special priorities and rules can be identified. Indeed, ultimately, the intellectual property rights protecting brands are predominantly defined and regulated by the Czech national law, i.e. either by the Czech general regulation or by the Czech special regulation.

This contribution is the result of the Metropolitan University Prague research project no. 68-03 "Public Administration, Law Disciplines and Industrial Property" (2019) financed from the support for the Long-term and conceptual development of the research organization.

[1] R. MacGregor Pelikánová, R. Jakou definici průmyslového vlastnictví potřebujeme? [*Which definition of the industrial property do we need?*] Právní fórum, 2009, 2, 45–57.

[2] R. MacGregor Pelikánová. Selected current aspects and issues of European integration. Ostrava, CZ : Key Publishing, 2014, 186 p.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_18

The Czech general regulation, with respect to, among others, intellectual property issues, branding and consumer protection, is included in Act No. 89/2012 Coll., Civil Code (Civil Code), which serves as the *lex generalis* for basically the entire sphere of private law. The Czech special regulation, with respect to, among others, intellectual property issues, branding, and consumer protection, is included in a set of intellectual property Acts, i.e. *leges speciales*, such as Act No. 441/2003 Coll., on Trademark (Trademark Act),[3] Act No. 527/1990 Coll., on inventions and rationalization proposals (Patent Act) and Act No. 121/2000 Coll., Copyright Act (Copyright Act).[4] Since brands are often the foundation stone for trademarks and can be a copyrightable outcome, their substantive setting and protection are predominantly provided by the Trademark Act and possibly as well by the Copyright Act. Their enforcement is included in Act No. 99/1963 Coll., Civil Procedure Order (Civil Procedure Order) and in Act No. 221/2006 Coll., on enforcing industrial property rights (Industrial Property Enforcement Act), which implements the well-known Directive 2004/48 of the European Parliament and of the Council of 29 April 2004, on the enforcement of intellectual property rights (Enforcement Directive). Hence, for the scope of legal protection of brands and its enforcement, two Czech national Acts—the Trademark Act and Industrial Property Enforcement Act—are the most critical.

## 18.2 Scope of Legal Protection

Act No. 1/1993 Coll., Constitution, does not mention trademark owners, consumers, and their rights. However, the constitutional system of the Czech Republic includes another Act, which deals with it. It is Act No. 2/1993 Coll., declaring the Charter of Fundamental Rights and Freedoms (Charter). The Charter protects good reputation and name (Article 10 of the Charter), ownership (Article 11 of the Charter), intellectual property (Article 34 of the Charter), etc. Nevertheless, consumer rights do not seem to be directly and/or explicitly protected by the Constitution. It is questionable whether consumer rights are indirectly and/or implicitly protected by the Constitution, and neither academic writings nor case law provides a clear answer for this.

Holders of intellectual property have rights provided in compliance with the Constitution and the Charter. These rights are predominantly absolute property rights operating *erga omnes*. Their substantive parameters, such as nature, scope, and limitations, are set by the *lex generalis*, Civil Code, and the by the *leges speciales* dealing with individual intellectual property assets, such as the Trademark Act, Patent Act, and Copyright Act.[5] Their procedural parameters, notably

[3]A. Dmitrieva and R. MacGregor Pelikánová. Single Colour Trademarks Not Only on the Current Czech Market. ACC Journal, 2017, 23(2): 36–49. doi: 10.15240/tul/004/2017-2-003.

[4]R. MacGregor Pelikánová. Právo průmyslového vlastnictví [*Industrial Property Law*]. In: Schelle, Karel, Tauchen, Jaromír (Eds.). Encyklopedie českých právních dějin, VII. svazek Právo pra-Prob. Plzeň: Aleš Čeněk, 2017, 131-145 from 829 p. ISBN 978-80-7380-648-4 in co-edition with Ostrava: KEY Publishing, 2017.

[5]R. MacGregor Pelikánová. History of the Czech Copyright Regulation, Journal on European History of Law, 2011, 2(2): 201-205.

enforcement, are set by the *lex genaralis*, Civil Procedure Order, and *lex specialis*, Industrial Property Enforcement Act.[6] Basically, the same substantive and procedural framework applies regardless of whether a real or electronic, a.k.a. digital, environment, typically the Internet,[7] is involved or what type of infringement is involved (misleading, parasitizing, reverse engineering, etc.). Naturally, in the case of electronic environment, the liability of IS/IT providers emerges, and the regulation for it is included in Czech Act No. 480/2004 Coll., on certain services of the information society, which implements Directive 2000/31/EC on electronic commerce and Directive 2002/58 on privacy and electronic communications.

Breaches and violations of branding can, in certain situations, become not only a private law issue but also a public law issue. Therefore, in these more serious situations, there can be private law sanctions, such as damages or injunctions, as well as public law sanctions, such as fines or imprisonment provided by Act No. 143/2001 Coll., on protection of competition, and the Act No. 40/2009 Coll., Criminal Code. Hence, the legal protection of brands and related rights has, in Czech law, both features, those of private law and those of public law. Indeed, even within the same area, such as trademark protection, holders and beneficiaries might have several mechanisms to choose from for their enforcement. This depends upon the choice of the employed substantive regulation, such as individual provisions of the Trademark Act in the interaction with certain rules on the protection against unfair competition from the Civil Code, and upon the choice of the employed procedural regulation.

It is suggested that the brand violations should rather be enforced based on the breach of substantive Czech private law,[8] such as the Trademark Act or Copyright Act. However, it can be easily argued that, under certain serious circumstances, such as reverse engineering reaching the state of an intentional malfeasance act, private law instruments should be complemented, if not replaced, by public law instruments.

### 18.2.1 The Trademark Act: Exclusive Rights of the Trademark Owner of a Brand

Signs registered as trademarks can have many features and can be foundations of logos, domain names, etc.[9] The rights of holders of intellectual property linked to

[6]R. MacGregor Pelikánová, R. Jakou definici průmyslového vlastnictví potřebujeme? [*Which definition of the industrial property do we need?*] Právní fórum, 2009, 2, 45–57.

[7]R. MacGregor Pelikánová and R. MacGregor. Internet Governance and its Legitimacy – From Rethoric to Facts and Even Beyond. International Journal of Business and Management, 2015, III (4): 77-102. ISSN 2336-2197.

[8]R. Horáček, E. Biskupová and Z. de Korver, Z. Práva na označení a jejich vymáhání. Komentář [*Designation rights and their Enforcement - Commentary*] 3rd edition, Prague, C.H. Beck, 2015.

[9]R. MacGregor Pelikánová. The (Dis)harmony of Opinions Regarding Domain Names in the Czech Republic. Scientific Papers of the University of Pardubice, Series D 3/2014, 2014, 32, 73–84.

brands protected via trademarks,[10] i.e. predominantly the rights of the trademark owner, are defined by the Trademark Act, namely its section 2, entitled Trademark Effects, which includes Article 8 to Article 12. The rights of a trademark owner are absolute, and they are property rights, close to the concept of ownership,[11] and defined as exclusive (Article 8(1)) and linked to use in the course of commerce (Article 8(2)). However, these absolute, property, and exclusive rights of a trademark owner are not unlimited.

According to Article 8(1) of the Czech Trademark Act, "The owner of a trademark has an exclusive right to use the trademark in relation to goods or services for which is protected. . ."

According to Article 8(2) of the Czech Trademark Act, "Unless provided by this Act otherwise (Article 10 and Article 11), nobody may use in the course of commerce without the consent of the owner of the trademark a) any sign which is identical with the trademark for goods or services which are identical with those for which the trademark is registered; b) any sign where, because of its identity with or similarity to the trademark, and because of the identity or similarity of the goods or services labeled by the trademark and that sign, there exists a likelihood of confusion on the part of the public, including the likelihood of association between the sign and the trademark; c) any sign identical with or similar to the trademark for goods or services which are not similar to those for which the trademark is registered, where the trademark has a good reputation in the Czech Republic and where the use of that sign would dishonestly take advantage of or be detrimental to the distinctive capacity or the good reputation of the trademark."

The exclusive rights from a trademark include the right to use the trademark, the right to prohibit the use of conflicting sign in the course of commerce, the right to demand the indication about the registration of the trademark and the right to dispose with the trademark. The liability for the breach of these rights is objective and does not require proof of the guilt.[12]

### 18.2.2 The Czech Copyright Act: Exclusive Rights of the Author of a Brand

Although the current Czech Copyright Act is predominantly perceived as a statute from the civil law area, which is distinctively reflected by the facultative trait of its provisions, it still embodies numerous public law strands of a mandatory nature.[13] Its

[10] A. Dmitrieva and R. MacGregor Pelikánová. Single Colour Trademarks Not Only on the Current Czech Market. ACC Journal, 2017, 23(2): 36–49. doi: 10.15240/tul/004/2017-2-003.

[11] R. MacGregor Pelikánová. The Impact of the Czech New Civil Code on Domain Names – legal (de)trashing of not only domain names. The Lawyer Quarterly, 2014, 4(3): 203–216.

[12] P. Koukal, R. Charvát, S. Hejdová and M. Černý. Zákon o ochranných známkách. Komentář. [*Act on Trademarks - Commentary*] Prague : C.H. Beck, 2017.

[13] R. MacGregor Pelikánová. History of the Czech Copyright Regulation. Journal on European History of Law, 2011, 2(2): 201–205.

framework is rather strict and unshakably reposes upon two critical elements, the author as a subject and the work as an object, and thus their definition is absolutely fundamental and at the same time inherently complex.[14] Therefore, the rights of the holders of intellectual property linked to brands can benefit from the legal protection based on the Czech Copyright Act, provided the particular brand satisfies the criterion of being a copyrightable work and is a product of the creative activity of a human being.[15] This understanding and definition represents a continuation of the continental (European) regulations created back in 1886 by the international Bern Convention.[16]

The Czech law follows the continental dualistic approach to the copyright and its content, namely according to Article 10 of the Czech Copyright Act, "Copyright includes exclusive personal rights aka moral rights (Article 11) and exclusive property rights aka economic rights (Article 12 ff)." The author can transfer neither personal rights (Article 11) nor property rights (Article 26), but the author can dispose with the exercise of property rights via license arrangements.

Regarding branding in the context of distribution and after-sales services, it is important to emphasize that the mentioned property rights include the right to use the work, which, pursuant to Article 12(4), entails "a) the right to reproduce a work (Article 13), b) the right to distribute an original or a copy of the work (Article 14), c) the right to rent an original or a copy of the work (Article 15), d) the right to lend an original or a copy of the work (Article 6), e) the right to exhibit an original or a copy of the work (Article 17), f) the right to communicate the work to the public (Article 18)..." The exclusive rights of the author or a beneficiary of the brand include distribution, which is understood, pursuant to Article 14 of the Copyright Act, as "making the work in a tangible form accessible by a sale or other transfer of the ownership of the original or a copy of the work." This leads to a limitation, namely to the extinction of copyright regarding works in a tangible form at the moment of the transfer of the title, as stated in Article 14 of the Copyright Act.

## 18.3 Limitations of Legal Protection

Although the legal protection of intellectual property rights within the Czech law is very strong and supported by provisions and instruments provided by both public law and private law, still it is not absolute. The limitations of legal protection reflect the interaction, and possibly even the conflict, of interests linked to the property, as well as other interests protected by the law and even the Constitution and the Charter.

[14]K. Schelle, J. Tauchen, J. Hejda, and R. MacGregor Pelikánová, Základy občanského práva. Kapitola 9: Autorské právo [*Fundaments of the Civil law. Chapter 9: Copyright*], 2nd ed, Ostrava: B.I.B.S., Key Publishing s.r.o. 2010, p. 217.

[15]R. MacGregor Pelikánová, History of the Czech Copyright Regulation, Journal on European History of Law, 2011, 2(2): 201–205.

[16]H. Chaloupková and P. Holý, Autorský zákon – Komentář [*Copyright Act - Commentaries*], 4th Ed, Prague : C. H. Beck 2012, p. 3.

Regarding the conflict of intellectual property interests, one group of limitations is due to the consideration of parallel or even prior intellectual property beneficiaries, such as the previous users of a sign, while the other group of limitations is due to the consideration of postbeneficiaries, such as the purchasers of an item carrying or incorporating the protected intellectual property asset and enjoying the effects of the exhaustion doctrine.

Similar to scope, the limitation of intellectual property rights and their protection are also not generally regulated; that is, it is left to special Acts. Hence, there are no general standards for exhaustion within the Czech jurisdiction; that is, exhaustion and its regime are set for each intellectual property asset by a particular Act covering this type of the intellectual property asset, i.e. the Trademark Act, Patent Act, Copyright Act, etc. Therefore, the option between the international, national, and regional exhaustion regimes is made by special Acts, and so it differs for different intellectual property assets.

Regarding the application of these diversified legal protection regimes with their limits, there is rather a diverse case law, often not yet ripe to offer precedents. In particular, the exhaustion of intellectual property and related rights is out of the judiciary's focus and is not heavily discussed in the Czech Republic. Often the only common denominator is the fairness concern and legitimate expectations leading to the suggestion that the exhaustion doctrine and license agreement setting can sanction, e.g., manipulation with carriers of brands, such as unlicensed updates. In addition, such modifications by competitors might be perceived as unfair competition behavior (Article 2976 ff of the Civil Code).

### 18.3.1 The Czech Trademark Act: Limitation of Exclusive Rights and Exhaustion

The Czech Trademark Act deals with effects of a trademark in Part II, i.e. Article 8–Article 12. The absolute, property, and exclusive rights of a trademark owner have four statutory limitations (Article 10), and are mandatorily subject to the exhaustion doctrine (Article 11) and to the parallel coexistence in the case of a constructive waiver (Article 12). Further, they can be contractually limited by license agreements (Article 18). Namely, the *ex lege* limitation of exclusive rights is defined for four situations by Article 10, the regional exhaustion is set in Article 11 and the mandatory coexistence due to prior rights or due to the assumed waiver is set in Article 12, while the *ex contractum* limitation of exclusive rights is set for the case of the operation of the meeting of wills, namely the license agreement entered into by the trademark owner or trademark beneficiary, as previewed by Article 18. The limitation of the effects of a trademark occurs in all situations when the statutory requirements are met, i.e. regardless of whether the distribution of goods or services is on- or offline or pre- or postdeal.

According to Article 10 of the Czech Trademark Act, the effects of a trademark are limited in four situations, namely "(1) The proprietor of a trademark is not entitled to prohibit third persons from using in the course of the trade a) their name and surname, commerce name or name or address, b) indications concerning the kind, quality, quantity, purpose, value, geographical origin, the time of production of goods or of providing services, or other characteristics of goods or services, c) a sign necessary to indicate the purpose of the good or services, in particular for accessories or spare parts, provided the use is in accordance with commerce practices, good morals and competition rules. (2) The owner of a trademark has to tolerate, in the course of commerce, the use of an identical or similar sign, where the rights to this sign were created prior to the date of filing of the application for registration and the use of that sign is in accordance with the law of the Czech Republic." This limitation reflects Article 6 of Directive 2008/95, namely Article 14 of Directive 2015/2436/EU.[17] In sum, these limits entail the right of third persons to use a trademark of somebody else, even if it is a brand, to indicate the purpose of their goods or services, especially if they are accessories or spare parts, and a matching right of consumers to be informed. The application of this regime requires the compliance with commerce practices, good morals and competition rules; that is, the statutory limitations are not to lead to unfair commercial practices or unfair competition.

The case law confirms these statutory limits, along with the mandate of fairness observance during their application. Namely, the Czech Supreme Court in 23 Cdo 3412/2010 *JŽ v. Rumika* from 19 April 2012 – *rustika* confirmed that these limits are not to be interpreted extensively and in 23 Cdo 4292/2015 *Karlovarské minerální vody v. Ondrášovka* from 23 February 2016 that the owner of a trademark "Magnesia" cannot prohibit *per se* the use of the term *magnesia* or *magnesian*.

According to Article 11 of the Czech Trademark Act, the exhaustion of trademark rights is set as follows: "(1) The owner of a trademark is not entitled to prohibit its use in relation to goods which have been put on the market in the Czech Republic with this trademark by the owner or with his consent. (2) The owner of a trademark is not entitled to prohibit its use in relation to goods which have been put on the market in a member state of the EU or in another member state of the European Economic Area with that trade mark by the owner or with his consent. (3) The provisions of paragraphs 1 and 2 above do not apply where the owner of the trademark has legitimate reasons to prohibit further commerce dealings in the goods, in particular where the condition or nature of the goods has been changed or impaired after they have been put on the market." The Trademark Act explicitly uses the concept of "goods labeled by the trademark introduced on the market"; that is, no first sale is required. Hence, the Czech law via the Trademark Act provides for a regional exhaustion of trademark rights in the case of the consensual placement on the market; that is, the exhaustion of trademark rights for the Czech Republic, EU, or EEA occurs if the good is placed on the Czech, EU, or EEA market by the owner of the trademark or with his consent, provided no deterioration of the goods occurs (Article 11 of the Trademark Act). In contrast, the Czech Patent Act provides for a

[17] P. Koukal, R. Charvát, S. Hejdová and M. Černý. Zákon o ochranných známkách. Komentář. [*Act on Trademarks - Commentary*] Prague : C.H. Beck, 2017.

national exhaustion of rights linked to the placement on the market; that is, the exhaustion of patent rights within the Czech Republic occurs in the case of placing of the product resulting out of the patent on the Czech market.

Since there is but very little national case law, and just a few academic publications, about the exhaustion under the Czech law, it is impossible to make conclusions about the Czech practices in this context, regardless of whether in respect of trademarks, patents, or copyright. However, the distribution of the burden of proof in trademark matters is rather relaxed, and one party can easily manage to make the burden shift to another one; for example, the trademark breach is considered as established even if only the danger of confusion has been proven.[18] This suggests that exhaustion can be stated and preliminarily established, and then the burden of proof will shift to another party. Nevertheless, this is just a suggestion, since no strong and stable case law exists. At the same time, it seems almost certain that Czech courts have been closely observing and following the CJ EU approach stated, e.g., in C-78/70 *Deutsche Grammophon*, C-9/93 *IHT*, C-173/98 *Sebago*, C-414/99 *Davidoff*, C-427/93 *Bristol*, C-433/00 *Aventis*, etc.[19]

According to Article 12 of the Czech Trademark Act, a parallel coexistence of two trademarks is set as follows: "(1) The owner of an earlier trademark or the user of an earlier sign . . . is not entitled to ask a later identical or similar trademark to be declared invalid . . . or to hinder its use, if the he has tolerated the use of that later trademark for 5 (five) years . . ., unless the application for registration of the later trademark has not been filed in good faith (*bona fide).* . . ." This provision incorporates the principle *vigilantibus iura scripta sunt* and the principle of the protection of good faith, which is assumed. Hence, the absence of good faith has to be rigorously proven, and Czech courts stated clearly that mere knowledge about the senior trademark does not establish *per se* the bad faith of the new trademark applicant; see Supreme Administrative Court in 1 As 3/2008 *MH v. ÚPV* from 30 April 2008 – *Marstall*.

According to Article 18 of the Czech Trademark Act, the owner of a trademark can enter into a license agreement and give license to a third party; that is, "(1) The right to use the trademark may be licensed by means of a license agreement concluded pursuant to a special Law Act for all or some of the goods or services for which the trademark is registered. The license may be granted as exclusive or non-exclusive. (2) The owner of the trademark may invoke his rights conferred by his trademark against a licensee who breaches any provision of the license agreement with regard to its duration, the form in which the trademark may be used, the scope of goods and services for which the license is granted, the territory in which the trademark may be used, or the quality of goods manufactured or services provided by the licensee. . . (4) The license agreement becomes effective against third persons

[18] R. Horáček, E. Biskupová and Z. de Korver, Z. Práva na označení a jejich vymáhání. Komentář [*Designation rights and their Enforcement - Commentary*] 3rd Edition, Prague : C.H. Beck, 2015.

[19] P. Koukal, R. Charvát, S. Hejdová and M. Černý. Zákon o ochranných známkách. Komentář. [*Act on Trademarks - Commentary*] Prague : C.H. Beck, 2017.

upon its entry in the register; any of the parties to the agreement may request the entry in the register." The requirements of the request for the entry are determined by the implementing regulation. Paradoxically, the mentioned "special Law Act" is the *lex generalis* for the Czech private law—the Civil Code, namely Article 2358 ff of the Civil Code. The recognition of will, namely the protection of free will to contract by the Civil Code, permits the owner or beneficiary of the trademark to agree with another party or parties about standards and about sanctions for their breaches, such as contractual penalties or even the termination of the license. In addition, since the Trademark Act does not deal with geo-blocking, the only remote application of geo-blocking in the trademark context can be achieved by the operation of license agreements previewed by Article 18 of the Trademark Act and further regulated by the Civil Code.

In sum, if neither the limitation of effects (Article 10) nor the exhaustion doctrine (Article 11) applies, then the beneficiary of a brand based on a trademark can determine and impose the terms of the use of its brand or of a confusingly similar sign for identical or similar goods or services. In addition, such a beneficiary may enter into a license agreement with third persons (Article 18) regarding the right to use the brand, and since Czech law broadly recognizes the autonomy of will and freedom to contract, such a license agreement can provide contractual determination of the terms of usage.

### 18.3.2 Copyright Act: Limitation of Exclusive Rights and Exhaustion

The Czech Copyright deals with limitations to the copyright consecutively; that is, the absolute, property, exclusive, and nontransferable copyright is subject to delimitation, exceptions, and restrictions, which are provided by the Czech Copyright hierarchically. Firstly, only a work that is a unique (possibly original) outcome of the creative activity of a human being, and which is objectively expressed, can be an author's work protected by copyright (Article 2 Copyright Act). Secondly, certain outcomes are *ex lege* excluded from the author's work definition, such as daily news, any fact by itself, an idea, a proceeding, a principle, a method, a discovery, a scientific theory, a mathematical or similar formula, a statistical graph, or a similar subject as such (Article 2 Copyright Act). Thirdly, official works, such as legal regulation documents, decisions, Parliamentary publications, etc., and creations of traditional folk cultures, are *ex lege* "exceptions from copyright protection in the public interest" (Article 3 Copyright Act).[20] Hence, all these types of outcomes do not benefit from copyright protection; that is, the rights to them based on copyright are not only limited but also directly excluded. Further, exceptions and restrictions of copyright are covered by Section 4 of the Czech Copyright Act and need to be

[20] R. MacGregor Pelikánová. Czech National Report IN: B. Kilpatrick, P. Kobel, Pierre, P. Këllezi, (Eds.). Antitrust Analysis of Online Sales Platforms & Copyright Limitations and Exceptions. Springer, 2018, 391–406 of 602 p.

interpreted according to the interpretation rule provided by Article 29[21]; that is, a restrictive application of the Bern triple test, a.k.a. three-step test, occurs with basically the same result—the free use of copyrighted work without any need to obtain a consent or license from the authors of the copyright beneficiary. The case law fully matches this trend; see the judgment of the Czech Supreme Court in 30 Cdo 3474/2010 *Intergram v. Ing. V.H.* from 30 November 2011 – *club sharing CDs*; that is, making CDs owned by some members of an association without a juridical personality accessible to other members of this association cannot be qualified as an allowable free use (restriction on copyright), according to Article 30 of the Czech Copyright Act, because this activity has rather the features of a rental.[22]

The Copyright Act includes the exhaustion doctrine, based on the first sale of the work in a tangible form and with a regional effect. Namely, "….The author's distribution right, in the territory of a member state of the EU or any state of the the EEA, to the original or copy of a work, is exhausted by the first sale or any other first transfer of ownership of such an original or a copy of a work in a tangible form, that was performed by the author or with the author's consent in the territory of a member state of the EU or of the EEA; the rental right to the work and the lending right to the work shall remain unaffected" (Article 14 Copyright Act). Namely, the Copyright Act provides for a regional exhaustion of rights in a narrow manner; that is, it applies only in the case of the transfer of a title to works in their tangible form within the EU and EEA (Article 14 of the Copyright Act). Except for the Copyright Act, other *leges speciales* do not distinguish between tangible and intangible forms of involved goods with respect to the exhaustion doctrine and hopefully stay away from the temptation to dictate the use of e-commerce to private subjects, unlike the Court of Justice of the EU.[23] Hence, exhaustion applies regardless of the materiality or digitalization of the involved goods, unless they are covered by copyright. Naturally, by the mechanism of the license agreement of the Civil Code (Article 12 of the Copyright Act and Act.2358 ff of the Civil Code), territoriality and other aspects of copyright can be modified *ex contractum*, provided this is in compliance with mandatory provisions of the Copyright Act.

## 18.4 Balance of Interests

The beneficiary of intellectual property rights, such as the trademark owner or the author of a copyright work, has legally protected interests to exclusively use them. Nevertheless, such a monopoly is not absolute, and in addition to inherent limitations of the right and asset involved, such as the list of goods and services for which a

[21] H.Chaloupková and P. Holý. Autorský zákon – Komentář [Copyright Act - Commentaries], 4th Ed, Prague : C. H. Beck 2012, p. 53.

[22] R. MacGregor Pelikánová. Czech National Report IN: B. Kilpatrick, P. Kobel, Pierre, P. Këllezi, (Eds.). Antitrust Analysis of Online Sales Platforms & Copyright Limitations and Exceptions. Springer, 2018, 391–406 of 602 p.

[23] R. MacGregor Pelikánová. The unbearable lightness of imposing e-commerce in a vertical agreement setting. Antitrust – Revue of Competition Law, 2015, 3, 68–76.

trademark is registered, other limitations are provided based on public interest and/or other potentially competing rights, interests, and claims that can, but do not need to, be related to the intellectual property. Indeed, due to the digitalization, globalization, and massive online interaction, a myriad of interests from the sphere of intellectual property can conflict.[24]

The Czech law does not provide for various standards and regimes of trademark protection, and there is no difference in the availability and enforcement of trademark rights linked to a brand based on the type of distribution of goods or services or based on digital or another setting. Naturally, when a brand does not rely on a trademark, then the protection by the Trademark Act is not available, and such a brand might be protected only either via other intellectual property assets regulated by various *leges speciales* or via the protection against unfair competition included in the Civil Code. The fact that various sources can protect a brand leads to the inevitable conclusion that different brands can often conflict or a brand can get in a conflict with other assets. These situations of the conflict of legitimate interests lead to the need for balancing. If trademark or copyright rights fail to prevail or to protect a brand, then the brand beneficiary can go for Plan B, i.e. use the protection against unfair competition,[25] which is regulated by the Czech Civil Code, or use other legal measures protecting interests linked to competition law, consumer protection law, etc. Namely, the Civil Code provides protection against unfair competition (Article 2974 ff) and in the case of a breach or violation claimed by consumers, to wit when a consumer seeks the prohibition of certain unfair competition behavior of a competitor or a correction of a wrong situation, then the burden of proof is reversed—it moves to the competitor (Article 2989 of the Civil Code). Similarly, if a consumer claims damages, then the competitor must prove that the damage did not result from the unfair competition (Article 2989 of the Civil Code).

The hierarchy of strength is not fully established. Although the case law confirms that that the trademark is the strongest protection and enforcement instrument in the course of commerce—see Supreme Court in 23 Cdo 3412/2010 JŽ v. Rumika from 19 April 2012 – *rustika,* this is just a general rule restricted to the list of protected goods and services and subject to exceptions. Indeed, traditionally, the trademark and copyright protection is perceived as stronger, but a modern evolution and even case law corrects this perception. Recently, Czech case law pointed out that the use of a trademark by its owner can, under certain circumstances, become an act sanctioned as unfair competition; see the judgment of the Supreme Court in 31 Cdo 3375/2015 *Tenergo v. Team Energo* from 8 March 2017 – *tenergo*. This implies that the registration of a trademark is not, per se, a permit to use the sign covered by it, e.g. a brand, and to exclude others, quite the contrary.

[24] R. MacGregor Pelikánová. Internet My Dearest, What Type of European Integration Is The Clearest? Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, 2013, 61(7): 2475–2481.

[25] R. Horáček, E. Biskupová and Z. de Korver, Z. Práva na označení a jejich vymáhání. Komentář [*Designation rights and their Enforcement - Commentary*] 3rd Edition, Prague : C.H. Beck, 2015.

In addition, in this respect, the EU law has to be considered. Namely, there needs to be considered the massive impact of the antimonopoly, antitrust, unfair competition and consumer protection laws generated by the EU. Regarding antimonopoly and antitrust issues, Czech Act No. 143/2001 Coll., on competition protection, fully transposes and mirrors the EU law, especially Regulation 1/2003/EC on the implementation of the rules on competition and Regulation 139/2004/EC on the control of concentration. In sum, regarding substantive aspects, the Czech national law follows the EU competition law, in both good and in bad pathways,[26] but it must be admitted that despite a recent improvement, the Czech Monopoly Office with its history of several half-hearted performed cases,[27] lags behind the efficiency of the competition drive of the European Commission. Regarding unfair competition issues, the Enforcement Directive and Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market ("Unfair Commercial Practices Directive" or UCPD) have been fully transposed and implemented in the Czech law,[28] among others by the Civil Code, Trademark Act, and Industrial Property Enforcement Act.[29,30,31] Similarly, compliance with EU law and EU perspectives regarding consumer protection elevated the Czech consumer protection from the sphere of private law to sphere of public law. Therefore, consumer protection is covered by the national *lex generalis* having rather, but not only, private law features (Article 1810 ff of the Civil Code as), as well as the national *leges speciales* reflecting a strong public interest and so having predominantly public law features, in particular Act No. 634/1992 Coll., on consumer protection (Consumer Protection Act).

The primary concern from the consumers' protection view is the risk of confusion and passing off, and it should be pointed out that the Czech national law is in full compliance with the appropriate EU law, especially UCPD.[32] Hence, the substantive law setting regarding unfair competition and consumer protection, both within

[26]R. MacGregor Pelikánová. The unbearable lightness of imposing e-commerce in a vertical agreement setting. Antitrust – Revue of Competition Law, 2015, 3, 68–76.

[27]R. MacGregor Pelikánová. Divergence of antitrust enforcements – where, and where not, to collude. Antitrust – Revue of Competition Law, 2014, 2, i-viii.

[28]R. MacGregor Pelikánová, M. Beneš and J. Císařová. The misleading perception of the purpose of the protection against misleading advertising by the EU law and its impact in the Czech Republic. The Lawyer Quarterly, 2017, 7(3): 145–161.

[29]R. MacGregor Pelikánová, R. Jakou definici průmyslového vlastnictví potřebujeme? [*Which definition of the industrial property do we need?*] Právní fórum, 2009, 2, 45–57.

[30]R. MacGregor Pelikánová. European Myriad of Approaches to Parasitic Commercial Practices. Oeconomia Copernicana, 2017, 8(2): 167–180, doi: 10.24136/oc.v8i2.11. Available at http://economic-research.pl/Journals/index.php/oc/article/view/52/121.

[31]R. MacGregor Pelikánová and M. Beneš, M. Does the Full Harmonization of the Consumers´ Protection Against Unfair Commercial Practices Via UCPD Fit in Europe 2020? Czech Yearbook of International Law - CYIL, 2017, 8, 223–231.

[32]R. MacGregor Pelikánová. European Myriad of Approaches to Parasitic Commercial Practices. Oeconomia Copernicana, 2017, 8(2): 167–180, doi: 10.24136/oc.v8i2.11. Available at http://economic-research.pl/Journals/index.php/oc/article/view/52/121.

public and private law,[33] is rather satisfactory in this respect. Much more controversial and worthy of discussion are procedural aspects, i.e. how effective and efficient is the enforcement of these rights, claims, and interests.

In this setting of the interaction of various substantive and procedural law sources and different judiciary competences (EU courts, Czech general courts, Czech special courts, etc.), the search for the criteria to balance the interests linked to a brand is complex. Nevertheless, the starting point should be in the study of Acts, namely how they set the scope and limitation of the protection, including the exhaustion doctrine. The indices for the balance of interests are based on the requirements and conditions regarding exhaustion, parallel coexistence, etc. specifically stated by these various special Acts (see, e.g., the demand of use in the course of commerce, the length of the use, or waiver), as well as regarding general concepts of good faith (*bona fide*) and good morals (*bonnes moeurs*)[34] and even the public interest provided not only by special Acts but also by other Acts, including the Constitution and the Charter. Basically, each case needs to be assessed very individually and such brand cases even end by different courts due to the difference of the selected source of the protection.

Further, concerning the balance of interest by the Czech courts, it needs to be underlined that, in competition and antitrust matters and partially even trademark and copyright mattes, Czech courts heavily rely on the EU case law; that is, even when no regulation or direct full harmonization is involved, Czech courts will be prompt to follow trends set by the Court of Justice of the EU. The Czech courts proceed more quickly than one or two decades ago, but still the quality and quantity of the repair is an issue, and the satisfaction of the prevailing party often depends upon the pathway, i.e. based on which special Act has been litigating. Namely, there is not a general and explicit right to repair in the case of brand infringement; that is, the general regulation by the Czech Civil Code, along with some special Acts regarding competition, consumer protection, and intellectual property, covers this area. Since the collective (group) claims are rather a fictive option, basically all disputes regarding the balance of interest have individual involved parties. In addition, for unfair competition claims and consumer protection claims, special legal entities competent to protect the interests of competitors or consumers can sue (Article 2989 of the Civil Code).

The Czech law attempts to balance the rights of holders of intellectual property rights, including the protection of brands, consumer rights, and various labeling and other public law regulations. There is not an abundance of cases in this respect, and the few available cases rather suggest that perhaps the strongest protection is given to the full information of consumers and not only the avoidance, but directly the

[33] M. Pospíšil. Klamání zákazníků z pohledu soukromého i veřejného práva – obecný pohled [*Consumers´ deceipt from the private and public law perspectives – general view*]. Acta MUP, 2018, 2,65.

[34] R. MacGregor Pelikánová and J. Císařová. An overview of the concept of good morals in Czech Codices. AA Law Forum, 2014, 3–12.

prevention, of their misleading; see the judgment of the Supreme Administrative Court in 1 As 89/2011 *Vinařství U Kapličky v. SZPI* from 22 September 2011 about placing labels *Zajeci* on vines. Similarly, there are cases demonstrating a focus on consumer protection and protection against misleading labeling, such as the judgment of the Supreme Administrative Court in 4 As 154/2015 *UNILEVER v. SZPI* from 18 November 2015 – *Tomato content in ketchup* and the judgment of the Municipal Court in Prague in 10 Ca 74/2005 *F v. Úřad průmyslového vlastnictví* from 23 February 2006 – the brand *Hollywood*. Indeed, this case law line suggests that the top priority is to protect consumers, namely to provide them with full information, and to avoid the misleading of consumers is even more important than protecting the interests of trademark (brand) owners. Similarly, regarding terms and their meaning, the judgment of the Supreme Administrative Court in 7 As 27/2010 *LS v. Municipality Prague* from 2 July 2010 – *Safari trip* confirmed that the key purpose is the protection of consumers, and consequently their perspective should be critical in understanding legal and other terms.

In sum, in the Czech Republic, there has been a rather underdeveloped discussion about the balance of the interests of the holders of intellectual property rights and possibly other beneficiaries, including consumers, and this despite the growing impact of the EU and the massive EU case law. Nevertheless, there is a noticeable potential for a conflict and a need to balance. Considering current EU and Czech trends, it might be speculated that once this topic gets opened up, the public law aspects might prevail over the private law aspects. Hence, consumer protection might prevail over the private law aspects of intellectual property rights, and this despite the constitutional recognition of the protection of ownership, including brand ownership. However, this is mere speculation, and so far, fortunately, no attempts toward rebalancing (reshifting) are noticeable.

## 18.5 Conclusion

The Czech law shares the continental law tradition and the Czech intellectual property law, competition law, law against unfair competition, and consumer protection law are generally in compliance with EU law and belong in the twenty-first century. All these law branches, and even potentially other law branches, have an impact on the branding and its legal regime. Although they do not provide special rules tailored directly to branding, they still cover clearly the branding and this especially if the brand relates to a trademark or to a copyrightable work.

Due to the continental law paradigm of public law v. private law, and considering recent trends, it seems that brand beneficiaries are confronted with not only the exhaustion doctrine but also competition and consumer protection concerns and that Czech judges might strike a balance rather in favor of various public law competition and consumer concerns than in the favor of brand ownership and control, especially in relation to the market.

Considering globalization and digitalization, a certain harmonization on the international level of the exhaustion doctrine might be beneficial. However, it seems that reaching a consensus in this respect is unlikely. In addition, perhaps different exhaustion standards are to be observed for different intellectual property assets (trademark, patent, copyright, etc.). At the same time, it is definitely worthy for the Czech judiciary, academia, and all stakeholders to engage in a deeper national discussion about the scope and limitation of intellectual property assets, including brands, and their protection, and this especially in the context of the growing competition and consumer protection law. Indeed, within the Czech national law, the potential for conflict is increasing, and it would be instrumental and highly useful to have a clear criteria and indices helping to strike a balance of interests.

# Hong Kong

# 19

Stephanie Wong

## 19.1 Scope of Legal Protection of IP Rights in Hong Kong

There are main categories of protected intellectual property rights under the laws of Hong Kong (consisting of legislations and the common law), and we shall expand on each of the categories below.

### 19.1.1 Trade Marks

Registration, validity, and protection of trade marks have been governed by local legislation since 1873 in Hong Kong. The current statute is Trade Marks Ordinance[1] ("**TMO**"), accompanied by the subsidiary legislation Trade Marks Rules.[2] In addition, the Trade Descriptions Ordinance (Cap. 362) also provides for legislative rules prohibiting false trade descriptions, misleading information, and false marks in respect of goods provided in the course of trade.

The TMO first makes it clear that a registered trade mark is a property right obtained by the registration of the trade mark under this Ordinance, and the owner of a registered trade mark has the rights and is entitled to the remedies provided by this Ordinance (s.10 TMO).

[1] Cap. 559.

[2] Cap. 559A.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_19

It sets out in details requirements and procedure for registration of trade marks in Hong Kong. Similar to the position in the EU and UK, s.3 TMO defines a trade mark as any sign that is capable of distinguishing the goods or services of one undertaking from those of other undertakings and that is capable of being represented graphically.

There are absolute and relative grounds for refusal of registration. The absolute grounds include, for example, that the signs do not satisfy the definition under s.3 TMO, the trade marks are devoid of distinctiveness, the trade marks are descriptive, the trade marks are contrary to accepted principles of morality or likely to deceive the public. On the other hand, the relative grounds include, *inter alia*, prohibition of registration of a trade mark that is identical to an earlier trade mark in respect of identical goods or services, identical to an earlier trade mark in respect of similar goods or services or similar to earlier trade mark in respect of identical or similar goods or services (s.12 TMO). The relative grounds are also grounds of trade mark infringement (s.18 TMO). Well-known trade marks are given different types of protection in that s.12(4) TMO requires only similarity of marks but not similarity of goods or services, and the ultimate question is not one of likelihood of confusion but whether the use of the conflicting mark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or repute of the well-known trade mark. In the UK, the corresponding term is a mark that 'has a reputation', which is adopted from the European Union directive 89/104 of 21 December 1988.

Unregistered signs are also protected by the common law doctrine relating to passing-off. A business' goodwill is protected against acts of misrepresentation that causes damage.

Since this question concerns after-sale protection, it is noteworthy to point out that there are attempts to extend trade mark holders' rights to encompass confusion of consumers that see the product away from the point of sale. There have not been any particular case law in Hong Kong on this point, and hence we have to look to the authorities in UK that are persuasive in Hong Kong. In *Datacard v. Eagle Technologies*,[3] the Court reviewed the case law and found that 'post-sale' confusion might be relevant in certain circumstances, for example where it leads to repeat purchases.

The principles on infringement of trade marks and passing-off have been succinctly summarised in the Hong Kong Court of Final Appeal case *Tsit Wing v. TWG*,[4] discussed by Kok and Wong.[5]

[3][2011] EWHC 244.

[4](2016) HKCFAR 20.

[5]M. Kok and S. Wong, The Storm over a Teacup: Hong Kong Top Court Clarifies IP Law, Journal of Intellectual Property Law and Practice, Vol. 11, Issue 6, 1 June 2016, 410–412.

### 19.1.2 Copyright

In Hong Kong, the Copyright Ordinance (Cap. 528) ("**CO**") came into effect on 27 June 1997, which is the principal statute concerning protection of copyright. Apart from the CO, legislation relating to copyright in Hong Kong includes, *inter alia*, the Prevention of Copyright Piracy Ordinance,[6] Intellectual Property (Miscellaneous Amendments) Ordinance, Copyright (Suspension of Amendments) Ordinance,[7] Intellectual Property (Miscellaneous Amendments) Ordinance 2001, Copyright (Amendment) Ordinance 2003, Copyright (Amendment) Ordinance 2004, Copyright (Amendment) Ordinance 2007, Copyright (Amendment) Ordinance 2009.

The CO largely incorporates the UK Copyright, Designs and Patents Act 1988 relating to copyrights.

Copyright does not require registration in Hong Kong. S.2(1) CO again defines copyright as property right, and s.3 provides that copyright comprises both economic rights (rights to reproduce) and moral rights (rights to be identified as author or director or right to object to derogatory treatment of work).

In general, copyright subsists in a work if the work is original, is recorded in writing or otherwise falls within any of the descriptions of work (e.g. literary, dramatic, musical or artistic works, sound recordings, films, broadcasts or cable programmes, or typographical arrangement of published editions) and is created by an author who satisfies the qualification requirements or is published in Hong Kong or elsewhere.

The CO provides for a fair dealing exception mechanism.

The Copyright (Amendment) Bill 2014 (the "**Bill**") aimed at introducing further categories of fair dealing exceptions for the purposes of parody, satire, caricature, pastiche, commenting on current events and quotations and to provide for clarification of criminal liability for copyright infringement generally. Another primary objective of the Bill is to bring the law up to date by introducing a communication right to remove a lacuna that effectively leaves unauthorised distribution of copyright works by modern means impossible to restrain under the existing law. Modern technology obviates the necessity to make what is defined as "infringing copies" available before distribution. Under the existing law, restricted acts have always included making copies of a work or a substantial part of the work without authorisation. Restricted acts such as copying if done without authorisation of the copyright owner is an infringement, and the copies so made are 'infringing copies' (s.35 CO). Uploading copyright works onto and downloading copyright works from digital platforms involve making digital copies of the works, transient though they may be. When unauthorised, this form of copying is no different from making physical copies from works such as photocopying and transferring a sound recording. Some modern means of distribution of infringing copies, e.g. by streaming, is of the same nature and effect as distribution of infringing copies via traditional means,

[6]Cap. 544.

[7]Cap. 568.

if only more facile. The Bill therefore aims at introducing communication right by creating civil and criminal liability for unauthorised communication, as done in substantially the same wording corresponding to the existing provisions for unauthorised distribution of infringing copies.

However, the Bill was not passed due to strong political opposition in Hong Kong. The Hong Kong Bar Association has indeed made a position paper in relation to the Bill dated 17 February 2016 expressing some of its views on the Bill.[8]

### 19.1.3 Registered Designs

A design registration system was created under the Registered Designs Ordinance[9] ("**RDO**") in Hong Kong, enacted on 27 June 1997. Pursuant to the RDO, applications for registration are made directly to the Hong Kong Designs Registry, which does not undergo a detailed examination process before a design is to be registered. Persons aggrieved by the registration may apply for opposition.

Pursuant to s.2 RDO, a design is registrable, and a design means features of shape, configuration, pattern or ornament applied to an article by any industrial process, being features that in the finished article appeal to and are judged by the eye.

As part of the registrability requirement, novelty of the design is essential. The standard of novelty under the RDO is one of absolute worldwide novelty. A design for which an application for registration is made will not be considered as new or novel if it has been registered in pursuance of a prior application, whether or not that design has been registered in respect of the same article for which the application is made or in respect of any other article, or it has been published in Hong Kong or elsewhere before the filing date of the application, whether or not that design has been published in respect of the same article for which the application is made or in respect of any other article, or it differs from such a design only in immaterial details or in features that are variants commonly used in the trade.

### 19.1.4 Patents

Patents in Hong Kong are governed by the Patents Ordinance[10] ("**PO**"), in force since 27 June 1997, reformed by the Patents (Amendment) Ordinance 2016. Three types of patents may be granted under the PO: (a) standard patents (R) (available under PO 2008 and 2016, for a maximum term of 20 years), (b) short-term patents (available under PO 2008 and 2016, for a maximum term of 8 years) and (c) standard patents (O) (available under PO 2016, for a maximum term of 20 years). The main

[8]Available at https://www.hkba.org/sites/default/files/Copyright%20%28Amendment%29%20Bill%202014%20...%20%28E%29.pdf.

[9]Cap. 522.

[10]Cap. 514.

difference for the newly introduced standard patents (O) is that both formality and substantive examinations are mandatory for a successful application, whereas for standard patents (R) and short-term patents, only formality examination is required.

The substantive requirements for registration of patents in Hong Kong include, *inter alia*, patentable subject matter, susceptibility of industrial application, novelty and inventive step.

### 19.1.5 Confidential Information

Confidential information is protected under the general common law principles. In summary, the law prevents breach of confidence when the subject information in question has the necessary quality of confidence, the person in breach has an obligation of confidence and there is a breach of confidence.

Defences include, *inter alia*, consent, miscellaneous immunities and disclosure in public interest. The scope of the public interest defence has been thoroughly examined in *The University of Hong Kong v Hong Kong Commercial Broadcasting Co Ltd and Anor*[11] at paras 50–53 in the context of interlocutory injunction and *The University of Hong Kong v Hong Kong Commercial Broadcasting Co Ltd and Anor*[12] at paras 37–49 in the context of trial. In summary, the Court held that there is a constitutionally guaranteed freedom of expression as provided for under Article 16 of the Bill of Rights and Article 27 of the Basic Law in Hong Kong, but the freedom is not absolute. It is qualified by, *inter alia*, the need to respect the right of others to confidentiality. The test is not whether the matters disclosed would interest the public or be of interest to the public or even newsworthy but whether it is in the public interest that disclosure should be made and confidence was breached. Nor is the test merely whether it is in the particular judge's view desirable for the information to be made public. The disclosure must be shown to be required in the public interest. More particularly, where there is justification to disclosure, the disclosure should be to one that has a proper interest to receive the information.

### 19.1.6 Private Information

The focus is on the nature of the information and whether there is any reasonable expectation of privacy: *Sima Sai Er v Next Magazine Publishing Ltd and Ors*[13] at para 7.

Interaction between misuse of private information and breach of confidence has been discussed in *Sim Kon Fah v JBPB & Co*[14] at paras 38–45. There may have been

[11] [2016] 1 HKLRD 536.

[12] [2016] 4 HKLRD 113.

[13] Unrep., HCA 1500/2014, 8 August 2014.

[14] [2011] 4 HKLRD 45.

an issue that misuse of private information has been "shoehorned" under the cause of action of breach of confidence, as discussed at para 42 of the said judgment.

### 19.1.7 Layout Designs

The Layout-Design (Topography) of Integrated Circuits Ordinance[15] ("**Layout-Design Ordinance**") provides for the rights and protections in relation to layout designs.

Layout design is defined as the three-dimensional disposition, however expressed, of the elements of an integrated circuit and of some or all of the interconnections of an integrated circuit or such a three-dimensional disposition prepared for an integrated circuit intended for manufacture.

Like copyright, originality is also an essential requirement as per s.2 of the Layout-Design Ordinance.

## 19.2 Exhaustion of Rights

### 19.2.1 Trade Marks

Under the Hong Kong trade mark law, it will not constitute infringement if the owner or the exclusive licensee of the trade marks have exhausted their rights to the trade marks before the parallel import by putting the relevant products on the market elsewhere in the world. This is the "doctrine of international exhaustion" (or "Exhaustion of Rights").

The doctrine of international exhaustion is adopted under s.20 TMO. S.20 (1) TMO provides that it is not infringement to use a registered trade mark in relation to goods that have been put on the market anywhere in the world under that mark by the owner or with the owner's consent (express or implied, conditional or unconditional).

An exception is, however, provided under s.20(2) TMO, which states that s.20 (1) is inapplicable where the condition of the goods has been changed or impaired after they have been put on the market and the use of the registered trade mark in relation to those goods is detrimental to the distinctive character or repute of the trade mark.

In *Hugo Boss Trade Mark Management GmbH & Co KG v. ISA Boutique Ltd*,[16] a decision about request for further and better particulars, at paras 5–12, the Court held that why the goods have been impaired is irrelevant and whom and where the impairment has occurred is immaterial for the purpose of s.20(2) TMO. The Court further held that partial mutilation has to be established by the plaintiffs.

[15] Cap. 445.

[16] Unrep., HCA 251/2007, 2 October 2008.

### 19.2.2 Copyright

In the context of copyright, it was formerly an offence if a person did the following acts where the copyright works concerned had been first published anywhere in the world within the last 18 months:

– importation of parallel copies for any business purpose;
– selling, hiring or distributing for profit parallel imported copies; and
– use or possession of parallel imported copies of movies, television dramas, musical sound recordings or musical visual recordings in business.

The 2003 Amendment Ordinance liberalised parallel import to the extent that the restriction on parallel import does not apply to products that contain a computer program. However, if the principal attraction of a computer program product is movies, television dramas, musical sound or visual recordings, e-books or a combination of them, the restriction continues to apply[17]: s.35A of the 2003 Amendment Ordinance.

The Amendment Ordinance 2007 further liberalises the restriction and provides for changes to the regulatory regime for parallel imported copyright works. The three main changes are as follows:

– Liberalisation for business end users: end-users are permitted to import or possess parallel imported copies of copyright works for use (but not dealing in, *i.e.* sell, hire or distribute for profit) in business under specified circumstances.
– Liberalisation for educational establishments: import of genuine overseas products for educational purposes or for library use is allowed by educational establishment or library. Again, dealing in is excluded from this.
– Shorter period for criminal sanction: the criminal liability period for parallel imports was shortened from 18 to 15 months.

However, the Amendment Ordinance 2007 still prohibits selling, hiring or distributing parallel imported copies of copyright works (except for computer software) and playing or showing the copyright works in movies, television dramas, musical sound recordings or showing the copyright works in movies, television dramas, musical sound recordings or musical visual recording in public. If a parallel-imported copy was not an infringing copy but was dealt in within 15 months from first publication, this would attract criminal liability, as well as civil liability.

On the one hand, Amendment Ordinance 2007 liberalised restrictions on parallel import, as summarised above; on the other hand, the Amendment Ordinance also strengthened criminal enforcement by introducing certain presumptions as to the proof of elements of offence; for example, if a copy is stored in an optical disc not

[17]K. Wong and A. Lee, Intellectual Property Law and Practice in Hong Kong, 2nd ed., Sweet & Maxwell 2017, at para 3.125.

bearing a Hong Kong licensed manufacturer's code, it is presumed to be an imported copy: s.35(6A)(a) CO. There are other presumptions detailed in the same section, realting to copies of work stored in an optical disc, etc.

Procedurally, s.121(2A) CO also introduced the use of affidavit evidence by or on behalf of the copyright owner to prove that the parallel imported copy in question, if made in Hong Kong, would have infringed copyright and hence is not allowed to be distributed or sold in Hong Kong. Such provision alleviates the burden on the part of the copyright owners to attend court in person to prove ownership of copyright.

A lot of concerns on the part of brand owners are raised in relation to the extent of protection under the current law on parallel imports. Brand owners' concerns are especially acute when in a lot of times the consumers may have caused degradation of the goods harming reputation of the brand owners. However, one way of looking at the issue is that with increased and prevalent e-commerce and use of Internet platforms (such as apps like Instagram, Carousell) for the resale of goods, consumers nowadays may well have been educated to know that they bear the risks of purchasing lower quality goods, particularly when second-hand goods are concerned, and would not attribute such defects in quality to brand owners. Of course, this hinges on honest descriptions of the goods. Sometimes, it may not be entirely plausible for the consumers to differentiate between first-hand and second-hand goods if they are not properly labelled by the sellers.

### 19.2.3 Layout Design

S.5(f) of the Layout-Design Ordinance provides that commercial exploitation of an integrated circuit in which the layout design is incorporated or an article that contains an integrated circuit in which the layout design is incorporated after that integrated circuit or that article has been put on the market anywhere in the world with the qualified owner's consent is not infringement.

## 19.3 Reverse Engineering

Reverse engineering can be indirect infringement under copyright law in Hong Kong.

The spare part defence was analysed in the Privy Council case of *Canon Kabushiki Kaisha v Green Cartridge Co (Hong Kong) Ltd*[18]; a Privy Council case from the Court of Appeal in Hong Kong, the first instance court, granted an injunction against the defendant. The Court held that by manufacturing cartridge parts by reverse engineering from the plaintiff's cartridge parts, the defendant had indirectly reproduced in three-dimensional form the plaintiff's drawings and that the spare part exception did not entitle the defendant to do so.

[18][1997] AC 728.

Reverse engineering is also relevant in the context of protection of confidential information, particularly on the issue of whether the information has the necessary quality of confidence if it can be reverse engineered and the obligation of confidence: *Kerry Ingredients (UK) Ltd v. Bakkavor Group Ltd.*[19] Reverse engineering also intersects with the relative secrecy test. One might ask, whether the question should focus on whether the information is *in fact* generally known or readily accessible or whether the information *could be* generally known or readily accessible.

[19] [2016] EWHC 2448 (Ch).

# 20 Hungary

Eszter Szakács, Dániel Arányi, Gusztáv Bacher, Bálint Halász, and László Zlaratov

## 20.1 Introduction

In Hungary, there is no single IP Code or legislation. The legally protected interests of holders of intellectual property rights are defined in the acts on different IP rights, i.e. trademarks, geographical indications, patents, plant variety protection, utility model protection, design protection, topography protection, and copyright. Beyond these acts, right holders can also rely on additional or related provisions of the Civil Code, the Criminal Code, competition law, and customs law. However, as the provisions of the Criminal Code relate to IP rights, criminal sanctions cannot be imposed unless infringement is proven under civil law, i.e. under the relevant IP legislation. It is also worth mentioning that while the Trademark Act contains a nonexhaustive list of infringing acts, e.g. offering for sale, importing, or exporting, the Patent Act contains a closed list of such activities. The interests protected by the IP acts are set out in the preambles of the respective acts as well.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_20

## 20.2 The Scope of Legal Protection of Intellectual Property Rights in Hungary

### 20.2.1 The Hungarian Trademark Act (Act 11 of 1997)

The preamble of the Trademark Act states that the purpose of enacting the act is to promote the development of Hungarian market economy, to improve competition conditions based on the use of signs capable of distinguishing goods and services, and to assist the public in gathering information.

The holder of the trademark has the exclusive right to use the trademark and is entitled to license the right of use and is entitled to prevent any person not having his consent from using in the course of trade the following:

(i) any sign identical with the trademark in relation to goods or services that are identical with those for which the trademark is registered;
(ii) any sign where, because of its identity with or similarity to the trademark and the identity or similarity of the goods or services, there exists a likelihood of confusion on the part of the public; or
(iii) any sign that is identical with or similar to the trademark in relation to goods and services that are not identical with or not similar to those for which the trademark is registered, provided that the trademark has a reputation in the country and the use of that sign without due cause would take unfair advantage of, or would be detrimental to, the distinctive character or the repute of the trademark.

This means, in particular, that it is prohibited to affix the sign to the goods or to the packaging thereof; to put the goods under that sign on the market, to offer them for sale or to stock them for such purposes; to offer or supply services under that sign; to import or export the goods under the sign; to use the sign in business correspondence and in advertising.

The circumstances required for a valid interest to be recognized in the protection of a brand are characterized in the list of cases where the holder of a trademark cannot enforce his legal interests if the holder has not put the trademark into genuine use, the trademark rights are exhausted in relation to goods that have been put on the market within the EEA by or with the consent of the trademark holder, the holder has not taken actions against unauthorized use for five consecutive years, or the trademark has lost its distinctive character or has become deceptive.

In addition to these scenarios set out above, the recognized interests of right holders are also provided by the clause pertaining to exhaustion. Article 16(2) of the Trademark Act states that the provision of exhaustion shall not apply where the proprietor has a legitimate reason for opposing further trade with the goods, in particular if the state or condition of the goods has changed or has been impaired.

Here, Article 16(2) refers to the legitimate interests of the trademark owner in opposing the use of the mark. The Trademark Act itself further lists, albeit not exhaustively, a number of cases to which the proprietor's legitimate interests may be tied; legitimate interests may relate, in particular, to maintaining the good state or condition of the goods to which the mark refers.

### 20.2.2 The Unfair Market Practices Act/Competition Law (Act 57 of 1996)

The preamble of the act makes explicit reference to the public interest attached to the maintenance of competition on the market ensuring economic efficiency and social progress; the interests of undertakings complying with the requirements of business fairness and the interests of consumers require the state to protect by law the fairness and freedom of economic competition. In the event that the brand is not protected by a registered trademark, the brand owner may be able to take action on the basis of the provisions on passing-off set out in the Unfair Market Practices Act. According to Article 6 thereof, it is prohibited to manufacture, distribute, or advertise products or services without the consent of a competitor if such goods bear a characteristic sign by which a competitor or his products or services are usually recognized. It is also prohibited to use a sign by which a competitor or his products or services are usually recognized. These provisions shall also apply to trademark-protected products, though.

In order to qualify for such protection, however, a competitor or his products or services must be usually recognized by that sign.

### 20.2.3 The Hungarian Patent Act (Act 33 of 1995)

The preamble of the Patent Act highlights the promotion of technical progress in the Hungarian national economy, the implementation of up-to-date technology, and the encouragement of inventors both morally and financially. The inventor enjoys moral rights and rights concerning the disclosure of the invention. The person originally mentioned as such in the patent application shall be deemed to be the inventor, unless a final court decision rules to the contrary. The inventor has the right to be mentioned as such in the patent documents. Prior to the publication of the patent application, an invention may only be disclosed with the consent of the inventor.

The holder of the patent has the exclusive right to exploit the invention and is entitled to license the right to exploit under a contract and receive royalties in exchange; furthermore, the patentee is entitled to prevent any person not having his consent

(i) from making, using, putting on the market, or offering for sale a product that is the subject matter of the invention or stocking or importing the product for such purposes;
(ii) from using a process that is the subject matter of the invention or, where such other person knows or it is obvious from the circumstances that the process cannot be used without the consent of the patentee, from offering the process for use;

(iii) from making, using, putting on the market, offering for sale, or stocking or importing for such purposes a product obtained directly by a process that is the subject matter of the invention.

The Patent Act also contains provisions relating to indirect/contributory infringement: the holder of the patent is entitled to prevent any person not having his consent from supplying or offering to supply a person, other than a person entitled to exploit the invention, with means (instruments, appliances) relating to an essential element of the invention, for carrying out the invention, when such person knows or it is obvious from the circumstances that those means are suitable and intended for carrying out the invention.

The Patent Act also contains a provision relating to plant variety protection.

### 20.2.4 The Act on the Protection of Utility Models (Act 38 of 1991)

The right to utility model protection belongs to the inventor. In any other matters concerning the moral rights of the inventor of the utility model, his remuneration and right to utility model protection, the provisions of the Patent Act shall apply.

The holder has the exclusive right to exploit the utility model or to license another person to exploit it. The exclusive right of exploitation shall include the manufacture, use, putting on the market, or offering for sale of a product that is the subject matter of the utility model or stocking or importing the product for such purposes within the framework of economic activity.

### 20.2.5 The Design Act (Act 48 of 2001)

The creator of the design enjoys moral rights and rights concerning the disclosure of the design. These include that the person who has created the design shall be deemed to be the designer. Unless a final court decision rules to the contrary, the person originally mentioned as such in the design application shall be deemed to be the designer.

The right to design protection belongs to the designer. The designer has the exclusive right to exploit the design and is entitled to prevent any person not having his consent from exploiting the design. Exploitation shall cover, in particular, the making, using, putting on the market, offering for sale, importation, and exportation of the product embodying the design, as well as the stocking thereof for such purposes.

The designer is entitled to transfer, assign, and pledge rights, with the exception of moral rights, deriving from the design and the design protection. Furthermore, the designer may license the right to exploit under a contract and is entitled to receive royalties in exchange.

### 20.2.6 The Copyright Act (Act 76 of 1999)

The preamble of the Copyright Act states the following: "Modern copyright legislation that keeps up with technological development plays a decisive role in encouraging intellectual creation and preserving national and universal cultural heritage; it creates and maintains the balance between the interests of authors and other rightholders, users and the broader public, taking into account the demand for education, culture, scientific research and free access to information."

The holder of the copyright, i.e. the author, enjoys moral and economic rights. Moral rights comprise the right to have the work published, the right of attribution, and the right to preserve the integrity of the work.

In the circle of economic rights, the author has the following exclusive right:

(i) to use his entire work or an identifiable part thereof in any tangible or intangible form and to authorize each and every such use (use means, in particular, reproduction, distribution, public performance, communication to the public by broadcasting or in any other manner, adaptation, and exhibition thereof),
(ii) to use the particular title of the work,
(iii) for the commercial exploitation of any typical and original character appearing in the work and the authorization of such exploitation.

The author is furthermore entitled to remuneration in return for authorizing the use of his work.

## 20.3 Protection of Intellectual Property Rights in Matters of Distribution

### 20.3.1 After-Sales Matters

The currently effective legislation does not provide variations in the level of protection that brands may enjoy according to the type of distribution of goods or services. Nevertheless, Article 16 (2) of the Trademark Act does contain an exception under exhaustion of trademark rights, whereby the holder has legitimate reasons to oppose further commercialization of goods, in particular, where the condition of the goods has been changed or impaired. This may be triggered in relation to luxury goods, for example. However, we are not aware of any relevant case law in Hungary.

Besides the rule of exhaustion and the abovementioned provision of the Trademark Act, the different IP acts do not address the area of after-sales services. Contractual limitations may be enforced under general civil law but only between parties to the given agreement; contractual limitation may not be enforced against third parties. This means that parties may stipulate certain limitations within an agreement, which will therefore not apply to third parties. Neither do the different IP acts differentiate between on- and offline distribution.

According to the Trademark Act, the trademark holder has the exclusive right to affix a sign to goods or to the packaging thereof to determine the terms of usage of the protected name or symbol in the context of on- and off-line distribution and after-sales service relating to a product branded with the trademark, to put the goods under that sign on the market or offer them for sale or stock them for such purposes, to offer or supply services under that sign, to import or export the goods under that sign, and to use that sign in business correspondence and advertising.

However, trademark protection does not entitle the holder to prohibit a third party from using the sign in the course of trade and in accordance with the requirements of fair trade practice; indications concerning the type, quality, quantity, intended purpose, value, and geographical origin of the goods or service, the time of production of the goods or of the rendering of the service, or other characteristics of the goods or service; or the trademark where it is necessary to indicate the intended purpose of the goods or services, in particular, in the case of accessories or spare parts.

According to Hungarian case law, the holder of a trademark can, to some extent, determine the terms of usage of the protected name or symbol in the context of on- and offline distribution and after-sales service relating to a product branded with the trademark in question. A distributor or a third party can use the word trademark of the holder or the text form of the trademark, in physical form or on its website, for informative purposes, as a reference to the genuine goods or services. However, such use should not be excessive; it should neither undermine the reputation of the trademark nor imply that there is a direct/special business relationship between the distributor and the manufacturer/trademark holder. It should not suggest that the distributor is part of the trademark owner's sales network either. According to case law, a distributor cannot register a trademark as part of a domain name except where the domain name makes it clear that the website is not related to the manufacturer/trademark owner, e.g., by assigning the word "used" to the brand. In this latter case, it is also important to mention that such a website should offer only genuine products and only those of the same brand.

Furthermore, in relation to figurative trademarks, a distributor should not use a figurative trademark unless it is required to designate the goods distributed by the distributor.

### 20.3.2 Geo-Blocking

Hungarian legislation regarding intellectual property rights does not prohibit geo-blocking and as such does permit right holders to engage in such a practice. Should geo-blocking, however, give rise to unfair market practices, this may result in the imposition of sanctions under competition law. Although the Unfair Market Practices Act does not contain *expressis verbis* provisions addressing geo-blocking, it does prohibit the abuse of a dominant position. This means specifically that in the case of transactions that are equivalent in terms of value or character, it is prohibited to discriminate, without justification, against trading parties, including in relation to the application of prices, periods of payment, discriminatory selling or purchase terms or methods, thereby placing certain trading parties at a competitive disadvantage. Geo-blocking may lead to such discrimination, and as such, those players that enjoy a dominant position in a particular market, i.e., persons that are able to pursue their economic activities to a large extent independently of other market participants without the need to substantively take into account the market reactions of their suppliers, competitors, customers, and other trading parties in deciding their market conduct, may find themselves the subject of investigation and face sanctions imposed by the Hungarian Competition Authority.

### 20.3.3 E-commerce Platforms

The issue of the rights and possibilities of intellectual property holders against the providers of e-commerce and communication platforms is essentially a question of whether the latter shall be considered service providers or intermediary service providers. The liability of both is regulated in Hungary by the E-commerce Act [Act 108 of 2001], which implements the E-commerce Directive (Directive 2000/31).

In the event that providers of such platforms are considered service providers, they shall be held liable for any unlawful information they have made available. In this case, intellectual property holders may avail themselves of the rights and possibilities provided under the IP acts and the general rules of the Civil Code and the Criminal Code.

However, if providers of such platforms are considered intermediary service providers, e.g., hosting providers, then exceptions do apply, although it is unclear whether such exceptions can really be relevant in the case of e-commerce platforms, especially if these are actually selling goods or providing services instead of simply acting as intermediaries.

The exceptions apply only on the condition that platform providers do not have actual knowledge of an unlawful activity related to the information or they are not aware of the fact that the information infringes the right or legitimate interest of any party; upon obtaining such knowledge of the above facts, they act expeditiously to remove or to disable access to the information; they apply the "notice and take down procedure."

The "notice and take down procedure" is set forth in the E-commerce Act (Act 108 of 2001). The holder of a trademark may request the removal of information—excluding the standardized address of the access to the information—which infringes its rights and was made accessible by the service provider, by way of sending a notice in the form of a notarized deed or a private document of full probative force to the service provider.

The notice shall contain the following: (i) the subject of the infringement and the facts that provide reasonable cause to believe that infringement has taken place, (ii) the data needed to identify the unlawful information, and (iii) the name, address of residence or head office, phone number, and electronic mail address of the right holder.

The service provider should arrange for disabling access to or the removal of the information identified in the notice, within twelve hours of receiving the notice and should give written notice to the affected recipient of the service that had provided the information that infringes the right of the right holder within three working days.

The service provider should refuse to disable access to or remove the information pursuant to the notice if the service provider has already previously taken the measures in relation to the same information based on the notice of the same right holder, unless the removal of or disabling access to the information was ordered by a court or authority.

Within 8 days of receiving the notice of the service provider, the affected recipient of the service may lodge an objection with the service provider, in the form of a private document with full probative force or a notarized deed, regarding the removal of the relevant information. The objection shall indicate the identification of the information removed or made inaccessible, and a statement with detailed explanation that the information provided by the recipient of the service does not infringe the right of the right holder. Upon receiving the objection, the service provider shall expeditiously make the relevant information accessible again and notify the right holder thereof by sending the objection to the right holder, unless the removal of or disabling access to the information was ordered by a court or authority.

However, if the affected recipient of the service admits the infringement of the rights of the right holder or does not lodge an objection within the abovementioned time frame or the objection does not contain the relevant information and statement, the service provider shall maintain the effect of disabling access to or removal of the information.

Should the right holder enforce his claim related to the infringement of right specified in the notice within ten working days after receiving the notice of the objection through a request of preliminary injunction for abandonment and prohibition or of an order of payment or file a criminal report with the police within twelve hours of receiving the court decision ordering interim measures, the service provider shall once again disable access to or remove the information. The service provider shall notify the affected recipient of the service of the measure that it has taken within one working day by supplying a copy of the court decision.

The right holder should notify the service provider about the final decision of the court without delay. The service provider shall expediently obey such decisions.

The service provider shall not be liable for the successful removal of or disabling access to the relevant information when the service provider has acted in accordance with the provisions above in good faith to ensure removal or disabling access thereto.

### 20.3.4 Reverse Engineering and De-compilation

Reverse engineering is regulated with respect to know-how as well as in the context of the software-related provisions of the Copyright Act (Act 76 of 1997). Know-how is currently protected by the Civil Code; Hungary is, however, in the process of implementing the EU's Trade Secrets Directive (2016/943). Once this has been completed, the protection of business secrets and know-how will be governed by a separate act.

According to the current (old) provisions, know-how protection does not apply where a person obtains the know-how or any knowledge, which essentially has the same attributes, by way of testing or analyzing a lawfully acquired product or lawfully received service.

Under Article 59(3) of the Copyright Act, the authorized user of a software product may, without the author's authorization, observe and study the operation of the software and may make a trial use thereof in the course of its loading, displaying on a monitor, running, transmission, or storage in order to understand the idea or principle that serves as a basis for any element of the software product.

Article 60 of the Copyright Act contains the provisions on decompilation. These are essentially in line with the provisions of Directive 2009/24 on the legal protection of software products. The reproduction or translation of a code that is indispensable for the acquisition of the information necessary for the combined operation of an independently created software with another software is possible, provided that (i) these acts of use are performed by the authorized user or another person entitled to use the copy of the software or a person put in charge of performing these acts by these persons, (ii) the information necessary to the combined operation has not been easily accessible to the persons referred to in clause a) above, and (iii) these acts of use are limited to those parts of the software that are necessary for ensuring the combined operation.

The information obtained through such decompilation must not be (i) used for a purpose other than the combined operation with the independently created software, (ii) communicated to another person unless this is required for the combined operation with the independently created software, (iii) used for the development, production, and putting into circulation of another software essentially similar as regards its form of expression or for other acts resulting in the infringement of the copyright.

Furthermore, decompilation is only permitted if it complies with the general preconditions of free use.

## 20.4 Limitations of Legal Protection Regarding Intellectual Property Rights

### 20.4.1 Exhaustion

The general standards for exhaustion in Hungary stem from the conflicting interests of the holders of the intellectual property rights and the interests of resellers, downstream service providers, and end users. In principle, by purchasing a product, customers—for example, resellers or distributors—acquire ownership of the product itself; they are thereby entitled to do as they wish with the product, including reselling it to other customers. Exhaustion of intellectual property rights allows this principle to prevail in cases where such products are protected by an IP right.

Exhaustion also enables the free movement of goods as one of the main freedoms in the European Economic Area since the geographical scope of exhaustion overrides the territorial nature of IP rights.

Exhaustion is governed by the relevant legislation pertaining to IP rights, i.e., in the legal provisions of the Trademark Act, Patent Act, Copyright Act, Act on the Protection of Utility Models, Design Act, and Act 39 of 1991 on the Legal Protection of Topographies of Microelectronic Semiconductor Products.

#### 20.4.1.1 Scope of Exhaustion in the Trademark and in the Patent Act

Since the general standards of exhaustion are identical for all IP rights in Hungary, the Trademark Act and Patent Act may serve as examples of the legal provisions of exhaustion and explain the criteria and requirements for such in the context of these Acts.

Article 16 (1) of the Trademark Act defines the scope of exhaustion declaring that "Trademark protection shall not entitle the trademark proprietor to prohibit use of the trademark in relation to goods that have been placed on the market in the European Economic Area by the proprietor or by others with his express consent." The second paragraph—quite uniquely among the different IP Acts—provides examples for the right holder's legitimate reasons for objecting against exhaustion: "The provision contained in Subsection (1) shall not apply where the proprietor has a legitimate reason for opposing further trade with the goods, in particular if the state or condition of the goods has changed or been impaired."

Article 20 of the Patent Act contains a rule similar to the corresponding provision of the Trademark Act, albeit without specifying the legitimate interests of the right holder: "The exclusive right of exploitation provided under patent protection shall not cover further acts related to a product marketed within the European Economic Area by the holder of the patent or with his express consent, unless the holder of the patent has reasonable interest to prevent further marketing of the product."

These legal provisions embody the essence of the regulations. The geographical scope of protection follows the concept of regional exhaustion since the IP rights of a Hungarian right holder can be exhausted on the market in the European Economic Area.

The key trigger for exhaustion is the act of putting the products on the relevant market; that is, the precise wording "have been placed on the market," as provided in the Trademark Act, signifies that assignment of the product's ownership, that the product enters the commercial channels, is the most relevant criteria. In this respect, the Court of Justice of the European Union defines this criterion as "A sale which allows the proprietor to realise the economic value of his trademark exhausts the exclusive rights conferred by the Directive, more particularly the right to prohibit the acquiring third party from reselling the goods."[1]

[1]ECJ, case C-16/03, *Peak Holding AB v Axolin-Elinor AB, formerly Handelskompaniet Factory Outlet i Löddeköpinge AB*, ECR 2004 I-11313.

Besides the general rules, the Patent Act contains specific provisions related to exhaustion of biotechnological patents and plant variety protection.

In the case of biotechnological inventions, exhaustion is limited. Namely, the exclusive right of exploitation conferred by the patent shall not extend to a biological material obtained from the propagation or multiplication of the biological material put on the market in the territory of the EEA by or with the express consent of the patentee where the propagation or multiplication necessarily results from the application for which the biological material was marketed, provided that the material obtained is not subsequently used for other propagation or multiplication. In other words, exhaustion of rights related to a biological material obtained from the biological material marketed with the consent of the patentee is only established upon the fulfillment of both of the above conditions.

In line with the directive cited above, Article 20/A (5)–(7) of the Patent Act contains regulations relating to farmers' privilege as an exemption from the protection of a patented biological material. The relevant provisions stipulate that the sale or other form of commercialization of a plant-propagating material to a farmer by the patentee or with the latter's express consent implies authorization for the farmer's use of the product of his harvest for propagation or multiplication on his own farm. The Patent Act refers to Article 14 of Regulation 2100/94 on conditions for such entitlements for farmers.

Similarly, the sale or other form of commercialization of breeding stock or other animal reproductive material to a farmer by the patentee or with the latter's express consent implies authorization for the farmer to use the patented livestock for agricultural purposes. This includes the use of the animal or other animal reproductive material for the purposes of pursuing his activity but shall not extend to sale within the framework or for the purpose of a commercial reproduction activity.

As such, exhaustion is essentially triggered by the actual sale of the specific goods; advertising or storing of the product does not lead to exhaustion of IP rights, and regulations may differ in respect of special kinds of IP rights.

#### 20.4.1.2 The Geographical Scope of Exhaustion

As Hungary is a member state of the European Union, Hungarian regulations on exhaustion of IP rights are harmonized with EU legislation, with exhaustion regulated regionally and the European Economic Area being the relevant market.

The Hungarian regulation does contain exceptions to the doctrine of exhaustion and both the Trademark Act and Patent Act set out such.

Article 16(2) of the Trademark Act, as cited above, states that the right holder's "legitimate reason" for prohibiting the further sale of his products constitutes an exception to the doctrine of exhaustion. The Trademark Act goes on to provide an example of such a legitimate reason, which may be invoked in the event of the condition of the product being changed or even impaired. It is important, however, to point out that this is a nonexhaustive list, and further activities may be deemed to harm the legitimate interest of the right holder.

According to Hungarian and EU legal practice, preventing the detrimental use of a trademark with good reputation[2] or the use of a trademark in a manner that gives the impression that there is a business connection between the reseller and the right holder[3] constitutes the right holder's legitimate interest.

According to the doctrine of exhaustion, as defined in the Patent Act, the exclusive right of exploitation conferred by patent protection shall not extend to acts concerning a product placed on the market in the territory of the EEA by the patentee or with his express consent, except where the patentee has legitimate interests in opposing the further marketing of the product (Article 20 of the Patent Act). This provision has been rarely addressed within judicial practice, so what precisely may be considered legitimate interests is as yet still unclear.

The burden of proof lies with the alleged infringer, i.e., the defendant in a court action. In general, the claimant, being the right holder of the IP right, initiates the lawsuit and in so doing shall (as described in the relevant Hungarian IP regulations) prove two criteria, namely, the existence of an IP right belonging to him and the defendant's infringing activity.

As a (possible) counterargument, the defendant shall prove that his activity was legitimate, in other words that the claimant gave his express consent for the sale of goods or that the doctrine of exhaustion applies.

#### 20.4.1.3 Exhaustion in the Case of Digital Goods

Given that Hungary is a member state of the European Union, EU legislation and legal practice developed by the Court of Justice of the European Union govern the applicability of exhaustion with regard to digital goods.

The relevant EU laws are, however, somewhat imprecise on whether exhaustion applies to digital goods. In Hungary, digital goods fall within the scope of copyright, but, unlike physical goods as regulated by the Trademark Act or Patent Act, transfer of ownership will not necessarily take place in a physical sense but rather, for example, through licensing.

This still developing area was touched upon in the CJEU ruling in C-128/11 *Usedsoft v. Oracle*, where Oracle distributed computer software by allowing customers to download the software onto their computers while also concluding a license agreement with customers to enable them to use the software.

The CJEU based its decision principally on the Software Directive and stated that exhaustion applies both to downloading a copy of a computer software application from the Internet onto a data carrier and to the resale of a user license involving the

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[2]ECJ, case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV and Evora BV*, ECLI:EU:C:1997:517.

[3]ECJ, case C-63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV and Ronald Karel Deenik*, ECLI:EU:C:1999:82.

resale of a copy of a computer program downloaded from the copyright holder's website.[4]

In the event that digital goods are tied to a physical medium, for example, computer software on a CD, they are protected by the Hungarian Copyright Act, according to which a creative work (i.e., computer software on a CD) does not need to be registered by any authority to be protected by copyright; copyright protection belongs to the author from the time of the work's creation, regardless of any registration.

#### 20.4.1.4 The Matter of Harmonization Regarding Exhaustion Rules in the EU: Balance Between the Rights of Consumers and Right Holders

There is a tendency within the EU toward harmonizing the rules on exhaustion. Regulation 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union Trademark already contains a common doctrine of exhaustion in Article 15 for EU trademarks. In the field of patents, Regulation 1257/2012 of the European Parliament and of the Council of 17 December 2012, implements enhanced cooperation in the creation of unitary patent protection rules on exhaustion of European Patents with unitary effect. National laws are in line with these provisions, clearly demonstrating that regional harmonization has already taken place. From a Hungarian perspective, international harmonization ensuring a minimum level of uniform requirement for national trademarks would also be beneficial for right holders.

We believe the Hungarian regulation, harmonized with the relevant EU legislation, strikes a good balance between the interests of resellers, distributors, and end users by regulating the doctrine of exhaustion and the interests of right holders by permitting a reasonably broad scope of exception, through the "legitimate reason" of the right holder explored above.

The relative lack of judicial practice would indicate that the regulation is essentially clear for both right holders and infringers.

Given the regional nature of exhaustion, parallel import of goods within the EU is permitted. Special Hungarian regulations are in effect with respect to the parallel import of medicines for human use. Requirements for such are governed by Regulation No. 449/2017. (XII. 27) on the authorization of the wholesale and parallel import activity of medicines, hereinafter referred to as "Parallel Import Regulation."

According to Article 6 of the Parallel Import Regulation, the notion of parallel import covers, among other activities, acquiring medicine in the country of origin;

[4]CJEU, case C-128/11 *Usedsoft v. Oracle*, ECLI:EU:C:2012:407, pt 47 : "Since an acquirer who downloads a copy of the program concerned by means of a material medium such as a CD ROM or DVD and concludes a licence agreement for that copy receives the right to use the copy for an unlimited period in return for payment of a fee, it must be considered that those two operations likewise involve, in the case of the making available of a copy of the computer program concerned by means of a material medium such as a CD ROM or DVD, the transfer of the right of ownership of that copy."

importing medicine for the purpose of distribution, repackaging, quality assurance, and quality assessment thereof; storing, stockpiling, and registering; shipping to the customer; removing from commercial circulation, in addition to keeping records, and supplying data and information regarding the medicine subject to parallel import.

### 20.4.2 Antitrust Law and IP Rights

As a member state of the European Union, harmonized EU competition/antitrust laws are in effect in Hungary too, and as such the same EU principles apply in Hungary in terms of how the interests of IP right holders and competition/antitrust laws intersect. The free movement of goods within the EU helps create a supranational territory where goods may enter and leave countries without interference. Meanwhile, intellectual property rights create exclusivity for right holders and are tied to specific territories.

The Patent Act, however, contains no specific competition/antitrust provision, so any potential antitrust agreement or market activities should be evaluated based on the general rules set out previously.

Although for a long time it seemed that the "single market" concept of the European Union would prevail, supported, for example, by exhaustion of IP rights within the European Economic Area (EEA), limitations have been imposed on EU competition/antitrust laws in recent years. In the *Coty* decision,[5] the Court of Justice of the European Union found that the selective distribution system for luxury goods complies with the relevant EU competition laws, provided the conditions laid down in the *Coty* decision are met.

The *Coty* ruling was issued by the CJEU on December 6, 2017, and is therefore relatively recent; how national courts and the CJEU will interpret the criteria contained in the ruling, i.e., "luxury goods" or "proportionate," is still a question.

It is also worth noting that Hungarian legislation recognizes the "selective distribution system" as a limitation to competition/antitrust law since Regulation No. 205/2011 (X. 7) on exempting some vertical agreement groups from the prohibition of unfair competition states that "selective distribution system" is an exception from an unfair vertical agreement.

### 20.4.3 Limitations Imposed on Downstream Markets: Software-as-a-Service

As previously mentioned, the CJEU's decision in *Usedsoft v. Oracle*[6] established that a computer program downloaded from the Internet shall be considered to have

[5]CJEU, case C-230/16, *Coty Germany*, ECLI:EU:C:2017:941.

[6]CJEU, case C-128/11, *Usedsoft v. Oracle*, ECLI:EU:C:2012:407.

been sold, which, through the doctrine of exhaustion of rights, creates a limitation for the right holder over its IP right, thereby enabling buyers in the downstream markets to resell the software they have downloaded. In Hungary, just as in the European Union, the exhaustion of IP rights therefore serves as a limitation to right holders on their exclusive rights.

The same applies to the limitation on bundling sales since the Unfair Market Practices Act/Competition Law, just as the relevant European legal provisions, prohibits bundle selling. Article 21(f) prohibits the abuse of a dominant position, specifically, to render the supply and acceptance of goods contingent upon the supply or acceptance of other goods or to render the conclusion of a contract conditional upon undertaking any commitment that, due to its nature or with regard to the usual contractual practice, does not form part of the subject of the contract.

In our experience, the abuse of a dominant position by an IP right holder has not yet been dealt with in Hungarian judicial practice, therefore making it hard to determine how this actually impacts IP right holders' control over after-sales services.

## 20.5 Consumer Interests in Competition Law

Article M) paragraph 2) of the Fundamental Law (the Constitution) contains that Hungary protects consumers' rights. However, the Fundamental Law does not contain further provisions; these are rather set out in the Consumer Protection Act [Act 155 of 1997] and the Act on Prohibition of Unfair Commercial Practices [Act 157 of 2008], which implemented the Unfair Commercial Practices Directive of the EU. In consumer protection cases, the provisions of these latter acts are usually cited, and reference is rarely made to Section M) paragraph 2) of the Fundamental Law. It is important to mention that historically Hungarian courts have been reluctant to apply provisions of the Fundamental Law (the Constitution). Constitutional rights of consumers are not limited to protection against state actions.

In competition/antitrust law cases, consumers' interests are considered only in the event that the activity in question breaches competition law, thereby harming or putting at risk consumers' interests. In such cases, competition law and protection of consumers' interests go hand in hand.

We believe that in the majority of cases, the economic approach in competition/antitrust law is sufficient to capture consumers' interests.

### 20.5.1 A Reversal of the Burden of Proof

Based on Article 14 of Hungarian Act 47 of 2008 on the Prohibition of Unfair B2C Commercial Practices, the burden of proof for the violation of consumer interest lies with the business entity, which means that at the request of the competent authority, the business entity shall provide proof to verify the authenticity of any fact comprising its commercial practices. In the event of the business entity's failure to comply, the fact in question shall be construed as untrue. The authority's notice shall contain a warning for the business entity to this effect.

This regulation is in line with Article 12 of EC Directive 2005/29, which requires the reversal of the burden of proof (the business entity shall furnish evidence as to the accuracy of factual claims in relation to a commercial practice). This rule differs from the general rules of administrative procedure, in which the authority is required to clarify the facts of the case and to furnish evidence in support of its claims. The purpose of the reversal of the burden of proof is that the business entity shall bear responsibility for what it claims in the form of commercial communication; thus, the present attribution of the burden of proof is appropriate.

### 20.5.2 Aftermarket Repair Considerations

According to Article 17(2) of the Design Act, a protected design does not entitle the holder to prohibit a third party from using such a design for the purpose of repairing a complex product in order to restore its original appearance, provided that the latter uses it in accordance with honest practices in industrial or commercial matters.

Hungarian legislation provides no general requirement concerning the obligation to provide a replacement once the warranty/guarantee period has expired. Nevertheless, the ECJ ruling in *Volvo v. Veng* is applicable insofar as the exercise of an exclusive right arising from intellectual property cannot in itself be regarded as an abuse of a dominant position. There is no published case law on the application of this ruling, though.

In terms of Hungarian and EU block exemption regulations, it can be established that the following contractual clauses may be considered anticompetitive conduct:

(i) vertical agreements concluded by a supplier of spare parts and a manufacturer of final products, according to which the supplier may only sell replacement parts to those final users or service providers or other service providers that are in a contractual relationship with the manufacturer for the provision of repair or maintenance,
(ii) selective distribution agreements in the motor vehicle sector that render it impossible to sell replacement parts to independent repairers.

### 20.5.3 Product Liability

Hungarian consumer protection legislation and the Civil Code set out mandatory regulations relating to terms of guarantee and product liability, meaning that these cannot be limited by the manufacturer. The manufacturer may be exempted from liability if it can prove that the reason for the defect occurred subsequent to performance, i.e., once the product had been supplied to the customer.

In the event that the manufacturer has contractually undertaken a guarantee (without statutory obligation), it may freely set the conditions, although according to the basic principles of contract law, such terms shall not constitute unfair contractual terms; the user of general contractual terms shall draw the other party's attention to unusual clauses; for example, "breaking of seals" terminates the guarantee.

## 20.6 Balancing Consumer and Market Interests in Legislation

In adopting new legislation, the relevant ministry shall conduct a balance of interest test to consider the impact of the new legislation. Consumers' interests are usually considered during this assessment.

As far as brands are concerned, consumers' interests are usually considered in relation to counterfeiting and privacy. The general view is that the current provisions on exhaustion of trademark rights and other limitations provide third parties—including consumers—with the necessary protection against misuse of trademark rights.

### 20.6.1 Direct Regulations

The Trademark Act itself contains provisions *directly* relating to consumers' interests:

(i) Absolute grounds for refusal: a sign may not be granted trademark protection if it is liable to deceive consumers as to the nature, quality, geographical origin, or other characteristics of the goods or services.
(ii) Relative grounds for refusal: a sign may not be granted trademark protection if, because of its identity with or similarity to the earlier trademark and the identity or similarity of the goods or services, there exists a likelihood of confusion on the part of the consumers and the holder of the earlier mark is entitled to prevent any person not having his consent from using such a sign in the course of trade.
(iii) The protection of the trademarks having a reputation may also be considered as relating to consumers' interests.
(iv) An agreement for the assignment of trademark protection shall be null and void where the assignment is likely to mislead consumers.
(v) A license agreement that is likely to mislead the consumers shall be null and void.
(vi) The holder of the trademark may have the right of information against any person that was found in possession of infringing goods on a commercial scale; was found to be using infringing services on a commercial scale, or was found to be providing on a commercial scale services used in infringing activities.

The right of information extends to information on the identity of persons involved in the production and distribution of the infringing goods or the provision of infringing services and of their channels of distribution. Acts are considered to be carried out on a commercial scale if it is obvious from the nature and quantity of the infringing goods or services that these acts are carried out for direct or indirect economic or commercial advantage. However, in the absence of proof to the contrary, acts carried out by consumers in good faith shall not be regarded as acts carried out on a commercial scale.

(vii) A sign shall be excluded from trademark protection as a collective mark if consumers are liable to be misled as regards the character or the significance of the mark, in particular, if it is likely to be perceived as other than a collective mark.

### 20.6.2 Indirect Regulations

The Trademark Act also contains provisions that relate *indirectly* to consumers' interests:

(i) The further grounds for refusal and the legal consequences of trademark infringement serve to protect consumers in a wider sense.
(ii) Trademark infringement has consequences under customs law; the holder may request a customs action from the relevant authority to prevent the entry of the goods affected by the infringement into the domestic market. This provision also indirectly protects the interest of consumers.
(iii) In Hungary, it is possible to grant trademark protection to a sign as collective or certification marks. These marks are also related to consumer protection as they directly express the quality of the goods.

### 20.6.3 Relevant Case Law

As it stands, there are no significant Hungarian cases where the balance of the interests of holders of intellectual property rights and consumers was found to be inappropriate. There was one particular case in which consumers' interests were used as part of the defence against trademark infringement. In the Hungarian LEGO® case, the courts found that LEGO's Hungarian figurative trademarks on the shape of certain building bricks were not only valid,[7] but they also ruled that importing, offering for sale, selling etc. bricks that are of a similar design, even if they are differently branded and therefore not counterfeit, constitutes passing-off

[7] Supreme Court of Hungary – now Curia of Hungary, decisions of 9th July 2008 Pfv.IV.22.098/2007/8., Pfv.IV.22.102/2007/8., Pfv.IV.22.097/2007/8., Pfv.IV.22.099/2007/8., Pfv.IV.22.100/2007/8.

under Article 6 of the Unfair Market Practices Act.[8] In this particular case, neither the Court of Appeal nor the Supreme Court accepted that consumers' interests should be taken into account in terms of whether competing products with similar design on the Hungarian market would facilitate competition.

[8] Supreme Court of Hungary – now Curia of Hungary - Pfv. 20.791/2011/4.

# Italy

# 21

Marco Francetti

## 21.1 Scope of Legal Protection

### 21.1.1 Legally Protected Interests of IP Right Holders in the Italian Jurisdiction

The Italian legal system confers to the holders of a registered brand the right to use it exclusively, as established by Art. 20 of the Italian Industrial Property Code.[1] The IP right holder may therefore prohibit third parties from selling products marked with a

[1]Legislative Decree 10 February 2005, No. 30. Art. 20 of the Italian Industrial Property Code provides that "*1. The rights of the owner of the registered trademark consist of the authority to make exclusive use of the trademark. The owner has the right to prevent third parties from using in the course of trade, without his consent: a) any sign which is identical to the trademark for goods or services which are identical to those for which the trademark is registered; b) any sign that is identical or similar to the registered trademark, for goods or services that are identical or similar, where due to the identity or similarity between the goods or services, there exists likelihood of confusion on the part of the public, that can also consist of a likelihood of association of the two signs; c) any sign which is identical with or similar to the registered trademark in relation to goods or services which are not similar, where the registered trademark has a reputation in the Country and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark. 2. In the cases mentioned in paragraph 1, the owner of the trademark may in particular prohibit third parties from affixing the sign on their products or packages; offering the goods, putting them on the market or stocking them for those purposes, or offering or supplying services under that sign; importing or exporting the goods thereunder; using the sign on business papers and in advertising. 3. The business person may affix his own mark to the goods he puts on the market, but he may not delete the trademark of the manufacturer or business person from whom he received the goods or wares.*"

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_21

distinctive sign even when commercialization takes place, for example, through a distribution system.

In fact, this behavior constitutes an act of unfair competition pursuant to Art. 2598, no. 3, of the Italian Civil Code, in the light of which the conduct of the seller consisting in continuing to market products of a certain brand even after the manufacturer has made known the existence of a selective or exclusive distribution system is to be considered unlawful. This is because the protracted commercialization of these products risks compromising the investments made by the manufacturer to promote the products and the brand and to ensure the consolidation of the company's image and the consumers' loyalty.

In this sense, the interests of the IP right holder in the context of on- and offline distribution and after-sales services are considered, firstly, to ensure that the sale to the final consumer takes place according to methods deemed necessary or appropriate for the correct commercialization of the product and, secondly, to safeguard the manufacturer's need to exercise more control over the distribution network: if the products are sold only by parties with a contractual relationship with the IP right holder that are, therefore, subject to its conditions, the holder will be able to efficiently exercise a power of direction much compared to when the goods circulate also on channels that are not under the IP right holder's control.

### 21.1.2 Standards of Protection of Brands Available to Holders of IP Rights Depending on Distribution

The exclusivity on distinctive signs has in itself a competitive-edge function: it serves to differentiate and make the various producers recognizable on the market. The abovementioned differentiation makes sense from a competition law perspective, especially if you compete for customers. Therefore, Italian law recognizes this exclusive right with a perpetuity character. However, it is possible that the holder of the distinctive sign uses this to derive monopoly advantages or to create false information to the detriment of consumers. The problem of distortion of competition may arise due to the way products are distributed.

In particular, selective distribution potentially restricts competition in two ways. On the one hand, the manufacturer undertakes to supply the product only to authorized distributors. Therefore, other distributors than those authorized that do not meet the requirements for admission to the system will remain outside the network (*intra*-brand restriction). On the other hand, authorized dealers are obliged to resell the product exclusively to consumers and other authorized dealers. As a consequence, firstly, retailers that do not belong to the system (either because they do not meet the requirements or because they are not to join the network) will not be able to procure even through this way, and, secondly, the authorized distributors will be able to procure only from the producer and other distributors belonging to the network. Unlike the exclusive distribution, therefore, in selective distribution, a form of active restriction of sales operates, which does not, however, concern the territories in which the retailer can sell the products but concerns the subjects to whom the resale can be carried out.

The restriction of competition inherent in selective distribution systems, as we will see, under certain conditions may not fall under Article 101 TFEU because in practice the system could be set in such a way as to weaken its anticompetitive scope. As part of these assessments, a central aspect regards the relationship that exists in selective distribution between price competition and *pre*- and *post*-sales services provided by the retailer. More specifically, since the selective formula is particularly suitable for the sale of products that require peculiar assistance at the time of sale, price competition is not the only competitive lever. The Court of Justice has in fact recognized that *there exist (. . .) legitimate needs, such as the safeguarding of a specialized trade, able to provide specific services for high quality and technological products, which justify the limitation of competition on prices to advantage. of competition on factors other than prices (. . .).*[2]

The compatibility of a distribution system with competition law involves a case-by-case analysis, which passes through an examination of the mechanisms and dynamics that characterize this type of distribution and a review of the various contractual clauses in order to verify the scope and effects in their economic context of reference. In this regard, it seems appropriate to clarify some key steps for the scope of application of Art. 101 TFEU referred to by the Commission: in particular, (a) the nature of the product justifies the use of a selective system, (b) the choice of distributors is based on qualitative criteria, which, in turn (c) are nondiscriminatory and proportionate.

If the aforementioned conditions are met, the selective distribution agreement will be considered compatible with the antitrust rules regardless of the market share held by the supplier and the buyer, without prejudice to the absence of fundamental restrictions. In the absence of these requirements, on the contrary, the agreement will be subject to Art. 101 TFEU but can still benefit from the exemption pursuant to Art. 2 of Regulation 330/2010 on the condition that (a) the market share thresholds referred to in Art. 3 of Regulation 330/2010 are not exceeded and (b) the agreement itself does not contain any fundamental restrictions or excluded restrictions.

### 21.1.3 Specific After-Sales Services Reserved to the Holder of IP Rights by Law

The consideration of the economic importance of after-sales services and the distribution of spare parts (which represent an important percentage of global costs for the final consumer) has led the Community bodies to introduce specific measures to protect competition in the repair market and maintenance of certain goods, such as motor vehicles. The introduction of such measures is based on the assumption that vehicles are complex, high-tech products that require maintenance and repair.

[2]ECJ, case 107/82, *AEG-Telefunken*, ECLI:EU:C:1983:293.

According to Regulation 1475, each distributor is obliged to offer after-sales services and therefore to support the related investments. The reorganization of the traditional link between the moment of sale (distribution of vehicles and spare parts) and that of after-sales assistance is functional to the interest of consumers in having access to a dense network of authorized repairers. As an alternative to the direct provision of after-sales services, the distributor is entitled to subcontract them to authorized repairers. In this case, the manufacturer may require the dealer to choose a repairer belonging to the same brand network. This eventuality does not eliminate the responsibility toward the final customer for the concessionaire since the same is held, according to Art. 128 ss., D.lg. no. 206/2005 (Consumer Code), to provide as a seller the guarantee of conformity also for what concerns the assistance activities.

Regulation 1475 assures independent repairers, which are in a position of technological dependence on manufacturers, the possibility to access spare parts and technical information; in order to protect their competitiveness and their ability to supply reliable services, this category of operators has actually encountered difficulties in accessing the technical information and diagnostic equipment necessary to repair the most recent production vehicles. With regard to these difficulties, the new regulation extended to independent repairers' access to software, tools, diagnostic equipment, workshop equipment, and training, as well as to spare parts and technical information. Such an opening may involve a potential contraction with respect to the industrial property rights and know-how eventually claimed by the producers. In this regard, the regulation prohibits them from abusing those rights: it would, for example, discriminate against the refusal of independent repairers to access information or equipment covered by the industrial property right or that constitute know-how where the access has already been granted to authorized repairers. Restrictive forecasts of this type, capable of integrating the extremes of an abuse of a dominant position pursuant to Art. 102 TFEU, exclude the benefit of the exemption for certain types, specifically indicated, of sensitive technical information.

### 21.1.4 Protection and Terms of Usage of a Trademark by the Licensees

The commercialization of goods bearing the mark on the national territory or in the EU both by the legitimate holder of a trademark and by a third person but with the "consent" of the owner results in internal and community exhaustion.

The placing on the market of products bearing a particular brand produces the exhaustion effect when the subject who places the goods in question on the market, although legally distinct from the owner, is contractually or economically linked to it in such a way that the commercialization of the goods takes place with the consent of the other.

The principal method, therefore, to control the terms of usage of the protected name or symbol once the first act of commerce has taken place is the contractual agreements negotiated with the licensees and distributors.

Thanks to the contractual tie that binds the licensor to the licensee, the licensor is able to control the quality of the goods supplied by its contractor by inserting in the license agreement specific clauses that oblige the licensee to follow the instructions of the licensor and that allow the licensor to verify their observance. In principle, therefore, the possibility of a check is likely to ensure that the trademark provides the guarantee that all the products or services that are marked with it have been manufactured or supplied under the control of a single undertaking that has responsibility for their quality; consequently, when the licensee sells goods bearing the trademark on the market, as a rule it must be considered that this is done with the consent of the owner for the purpose of exhaustion.

There is no doubt that the desired result occurs when the licensee complies with all the contractual clauses and therefore operates in accordance with the limitations that these impose on his work. The question arises, however, in the event that the licensee does not comply or completely respects the contractual agreements. In this case, it is necessary to distinguish according to the nature of the violation. The rules of reference provide that *the holder of a trade mark may assert the rights conferred by that mark against a licensee who infringes a provision of the license contract with regard to its duration, the form governed by the registration in which use the trade mark, the nature of the goods or services for which the license is issued, the territory in which the trade mark may be affixed, or the quality of the manufactured products or services provided by the licensee*.[3]

### 21.1.5 Geo-blocking and Its Limitations

On February 28, 2018, the European Parliament and the European Council have adopted a new Regulation concerning *measures aimed at preventing unjustified geographical blocs and other forms of discrimination based on nationality, place of residence or place of establishment of customers within the internal market.* This is Regulation 302/2018, pursuant to which any unjustified geographic locking system is banned within the European market from December 3, 2018, the date of application of this legislation.[4]

More specifically, on the basis of the rules introduced by this legislation, online operators will no longer be able to put in place in Italy any type of discrimination among users based essentially on the national nature or otherwise of the same origin, which affects the conditions of sale. Differently from what happened until today, in fact, where many e-commerce companies did not accept credit cards issued by a foreign bank, with the application of the European Regulation, the websites cannot

[3] Article 8, paragraph 2 of the directive, the corresponding provisions are found in Article 23.3 of the Criminal Code.

[4] Being a European Regulation, will find full and direct application in all EU Member States, both in relation to private individuals and public authorities, without the need to transpose its provisions by a national law.

provide different conditions related to the payment methods accepted for purchases made by users of the same state compared to those of other states. Furthermore, it will no longer be possible to block or restrict access to online platforms due to the client's nationality or place of residence.

It is true that the Regulation admits exceptions to this prohibition. In particular, the limits are set for some specific types of services, such as those related to content that falls within the scope of copyright protection (such as streaming music services, e-books, software, and online games) or those in certain sectors, such as the financial, transport, health, and social sectors. Therefore, concerning the abovementioned services, online service providers will still be able to apply geographic blocking systems, even within the European territory.

However, it has been established that the European Commission will have to assess, within 2 years from the entry into force of the Regulation, whether the ban on geo-blocking should be extended to other sectors that are for the moment exempted.

The aim of the European Regulation is clearly to avoid unjustified discrimination toward European citizens, as well as to prevent a huge obstacle to the circulation of goods and services across the Union, with serious repercussions on the fundamental principle of freedom provided for by the Treaty on the Functioning of the European Union (the TFEU, signed in Lisbon on December 13, 2007, and ratified in Italy by Law No. 130/2008, together with the Treaty on European Union, establishes the pillars of the European legal system, taking the place of the previous Treaty of Maastricht of 1992, already amended in 1997 in Amsterdam). In fact, it is a structural principle of the European order that is first and foremost achieved through the free movement of capital and the free provision of services in the European territory and among European citizens, which is regulated and protected not only by some important subcategories of principles but also by different legislative and application provisions.

In particular, Art. 20 of Directive 123/2006 concerning "Services in the internal market" establishes the principle of nondiscrimination. In fact, this rule states that *(1) Member States shall ensure that the recipient does not impose discriminatory requirements based on his nationality or place of residence. (2) Member States shall ensure that the general conditions of access to a service which the lender makes available to the general public do not contain discriminatory conditions based on the nationality or place of residence of the recipient, without prejudice to the possibility of providing for different access conditions when these are directly justified by objective criteria.*

### 21.1.6 Brand Protection on e-Commerce Platforms

In a context of exponential growth in the use of e-commerce as a marketing tool, the regulation of online sales is a crucial point for the holders of intellectual property that wants to protect *their* brands on e-commerce platforms. To this end, the IP right holder could abstractly make several choices:

– to absolutely prohibit the authorized dealers from using online platforms as a marketing tool: this possibility has already been rejected by the Court of Justice in the Pierre Fabre case,[5] in which the Court found that such a prohibition constitutes a restriction of competition, which cannot be justified by the objective of preserving the prestige image of the company;
– to impose on the authorized dealers only compliance with certain quality criteria: according to the European Commission, in particular, these criteria must be equivalent to those imposed at a nonvirtual point of sale, in the sense that the criteria imposed for online sales should pursue the same objectives and achieve similar results; the only justifiable differences would therefore be those imposed by the different nature of the two modes of distribution (on- and offline distribution);
– to allow authorized dealers to make online sales through their website, which meets the quality criteria set by the IP right holder, at the same time prohibiting the use of third-party platforms (the so-called marketplaces).

This prohibition can be expressed and applied regardless of the marketplace's compliance with the qualitative criteria set by the IP right holder for the platforms managed by authorized dealers. Alternatively, this prohibition can be a *de facto* prohibition through the imposition of criteria that cannot be met by a marketplace. This issue was addressed by the Court of Justice in the *Coty* case,[6] regarding the possibility of the manufacturer to prevent authorized dealers from using the marketplaces. In this regard, the European Commission considered that absolute bans on sale through marketplaces are not to be considered a hardcore restriction pursuant to Regulation 330/2010.[7]

### 21.1.7 Protection Against Reverse Engineering

To address the topic on reverse engineering, we should point out the text of Art. 99 of the Italian Industrial Property Code, which provides: *Without prejudice to the provisions on unfair competition, the legitimate owner of the information and business experience as per Article 98, has the right to prohibit third parties, subject to his consent, from acquiring, disclosing to third parties or using that information and experience in an unauthorized manner, except for cases in which the third party has obtained it in an independent manner by the third party.*

[5]CJEU, case C-439/09, *Pierre Fabre*, ECLI:EU:C:2011:649.

[6]CJEU, case C-230/16, *Coty Germany GmbH v Parfümerie Akzente GmbH*, ECLI:EU:C:2017:941.

[7]See European Commission, Final report on the E-commerce Sector Inquiry, paras 41–42: "As a result, the findings indicate that marketplace bans do not generally amount to a de facto prohibition on selling online or restrict the effective use of the internet as a sales channel irrespective of the markets concerned. . . ." and, moreover, that "As a result, without prejudice to the pending preliminary reference, the findings of the sector inquiry indicate that (absolute) marketplace bans should not be considered as hardcore restrictions within the meaning of Article 4(b) and Article 4 (c) of the VBER."

This provision provides for a protection of secret information that can be exercised against anyone and a protection that concerns not any type of violation but only those in which the acquisition of information has occurred in an abusive way, for example by obtaining the product on the market and the subsequent analysis or those obtained by reverse engineering (i.e., the case in which technical solutions are replicated through a "backward reconstruction" procedure) or even through autonomous creation.

The most heated and interesting debate in Italy is focused, in particular, on reverse engineering of software, which is the one applied to software or hardware systems for interoperability purposes.

According to the currently applicable case law, if this technique is aimed at supporting file formats or undocumented hardware peripherals, it is to be considered prevalently legal, although the holders often claim the rights on their patents.

## 21.2 Limitations on Legal Protection

### 21.2.1 The Principle of Exhaustion

In the Italian legal system, the principle of exhaustion—to be understood as "community exhaustion" as implemented in our legislation following the lines traced by the European case law—is provided for by Art. 5 of the Industrial Property Code (Legislative Decree 10 February 2005, No. 30), which states, in the first paragraph: *1. The exclusive rights attributed by this Code to the owner of an industrial property right are exhausted once the products protected by an industrial property right have been put on the market by the owner or with his consent in the territory of the Country or in the territory of a Member State of the European Union or the European Economic Area.*

This means that the owner of an Italian registered trademark, which at the same time holds the same trademark in another EU country or in the European Economic Area, will not be able to use the Italian trademark to prevent the importation and circulation of his products from Italy to the other Community or EEA country if these marked products have been placed on the market by himself or with his consent. This is because the brand's protection must not constitute an instrument for an artificial separation of a state's markets within the European Union.

The second paragraph of the Art. 5 of the Industrial Property Code also provides: *2. This limitation on the powers of the owner does not however apply when there are legitimate grounds for the owner himself to oppose further commercialization of the goods, in particular when the condition of the same has been modified or altered after being put on the market.*

In light of the above, if there has been the placing of the marked products in a foreign market with the consent of the Italian owner and there has been a third-party intervention, unrelated to the will of the owner, who has modified or altered the quality of the products, the holder will be able to assert his right in Italy attacking as a counterfeiter anyone who imports and puts into circulation modified or altered products bearing the mark.

This second paragraph therefore represents a safeguard rule that allows the IP right holder, even when he has "consumed" his exclusive rights, to take action to avoid that, under certain conditions, due to the behavior of the third party, the brand may suffer a reduction in attractiveness and value.

If there are no legitimate reasons for the IP right holder to oppose the sale within the Italian state, the holder will not be able to oppose the further circulation in Italy of products that were originally sold in Italy with his consent. In this sense, the second paragraph of Art. 5 of the Industrial Property Code is called "national exhaustion."

With reference to the concept of "put on the market by the owner,", it occurs with the perfection of any legal transaction (whether it be for consideration or free of charge to actual or mandatory effects), which implies the destination to the market of the marked product and assigns to the third party a power of enjoyment over the product for which a payment is typically required.

Consequently, the right can be exhausted not only through a stipulation of a legal transaction that transfers the property for consideration but also through a stipulation of a contract that constitutes a mandatory or usage right (such as a rental agreement or a leasing agreement), given that, in this way, it is certainly possible that the holder perceives the profit that the law assures him.

Finally, it is important to underline that "put on the market by the owner" is equivalent to the one made with his consent, therefore, typically, the commercialization carried out by a distributor or a licensee.

### 21.2.2 The Geographical Scope of Exhaustion

The principle of Community exhaustion makes it possible to avoid that the exclusivity of rights, in the hypothesis of its maximum exploitation, generates a territorial division of the European Community market, for example, through absolute territorial licenses, which would hamper the free movement of goods and services.

If there were no principle of exhaustion in our legal system, a trademark holder, for example, could prevent its products from being marketed in a certain market or could allow only a certain price.

This principle therefore acts as a catalyst for fair competition, allowing the IP right holder to decide on the distribution methods of its products on the market but also limiting its control over the rest of the distribution chain.

According to the Italian case law, the exhaustion of an intellectual property right must be demonstrated by those who object to it, who has the burden of proving all the elements of the case concerned, including the consent and the absence of legitimate reasons to the opposition to commercialization of his products.

As mentioned above, the principle of exhaustion of the trademark does not apply if there are legitimate reasons that would justify the owner of industrial property rights to prevent the further circulation of the products. These "legitimate grounds" are (a) the modification or alteration of the state of the products after they have been placed on the market and (b) all cases that cause a serious injury, which must be ascertained in practice.

The burden of proof concerning the finding of the existence of legitimate reasons that would exclude the exhaustion of the trademark falls upon the one that deduces these reasons once it is established that the holder has first put the products on the market or, with his consent, in the state or in the Community.

### 21.2.3 The Application of the Principle of Exhaustion to Digital Goods

With the advent of the digital age, the circulation of work in digital form has become of crucial importance, so that the Community legislator has intervened on this issue, placing a line of demarcation between the copies made starting from "the making available to the public" of the work and the material copies of the work itself.

For each category of copy, there will be a different regime of application of the principle of exhaustion:

– In the case of interactive availability of the work (including transmission via the Internet) and its download, which can be legitimately carried out only if the author grants the permission to reproduce, the realization of these copies does not imply the exhaustion of the distribution right, as expressly stated in the third paragraph of Art. 17 of Law No. 633 of April 22, 1941.[8]
– With reference to the material copies of the work (which are realized through the incorporation of the work on physical supports that allow the use in a direct way or even indirectly by means of appropriate technical tools), once introduced into the distribution chain within the European Community by the IP right holder or with his consent, the copies will no longer be subject to the control of the holder for what concerns the subsequent changes of ownership. In this case, the right of distribution is exhausted with the first sale or transfer of the property within one of the member countries of the Community made directly by the IP right holder or by others with his authorization.

[8]Art. 17 of the Law No. 633 of April 22, 1941, for the Protection of Copyright and Neighboring Rights (amended up to Legislative Decree No. 8 of January 15, 2016) provides that: "*1. The exclusive right of distribution concerns the right to market, place in circulation or make available to the public, by whatever means and for whatever purpose a work or copies thereof and also includes the exclusive right to introduce into the territory of the countries of European Community, for distribution, copies of a work made in countries not members of the European Community. 2. The distribution right shall not be exhausted within the European Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community is made by the rightholder or with his consent.*

*3. What is provided for under paragraph 2, shall not apply to the making available to the public of a work in such a way that members of the public may access it from a place and at a time individually chosen by them, even when the making of copies of the work is permitted. 4. For the purposes of exhaustion under paragraph 2, the free delivery of copies of a work for promotional purposes or for teaching or scientific research, when carried out or authorized by the right holder, shall not be deemed to be exercise of the exclusive right of distribution.*"

### 21.2.4 International Agreements and the Exhaustion of Intellectual Property Rights

The fact that the TRIPS Agreement does not address the issue of exhaustion of intellectual property rights makes the legal concept of exhaustion very controversial; this principle is recognized only in some countries and not in others. This implies that the importation, in a country that recognizes the concept of international exhaustion, of a product sold in a foreign country with the authorization of the IP right's holder cannot be prevented by the right holder itself.

In this sense, an international harmonization of the legislation on the standards governing the exhaustion of intellectual property rights might be useful.

### 21.2.5 Limitations on Brand Protection and Principle of Exhaustion

The principle of exhaustion is based on the balance of two opposing interests: on the one hand, the interest of the IP right holder to obtain an exclusive right on his own brands and, on the other, the interest of the community not to be limited to free economic initiative and competition. In order to reconcile these interests, as already underlined in the previous points, the principle of exhaustion establishes that once a marked product is put on the market in the community territory (or in the European Economic Area), the holder of one or more IP rights loses his rights on that specific product.

However, it should be emphasized that the IP right holder does not absolutely lose the right to protect its brands, but he loses the right only with reference to the specific product placed on the market: exclusively in this sense, the right to protect its brand is "exhausted."

If the principle of exhaustion operates, the IP right holders cannot prevent parallel imports of the marked products: the holders, therefore, cannot prohibit the circulation in their own state of the products marketed by them or with their consent in another Member State.

As already stated above, the Italian legal system sets the rules in order to balance the interests of consumers with those of the holders of intellectual property rights. In the next section, dedicated to the "Balance of interests," we will specifically address the issue of balancing these interests in our jurisdiction.

### 21.2.6 The Limitations on Providing Product, Including Software, "as a Service"

The limitations on providing product, including software, "as a service," has been a largely debated topic in Italy.

On this point, the Italian Supreme Court intervened with decision no. 19161/14 on the well-known case against HP and Miscrosoft Windows, addressing the issue of commercial sales policies combined with hardware/software. This case, in particular, concerned a consumer who, after purchasing an HP notebook, had requested a partial refund from the retailer, as he did not want to use the preinstalled operating system or even accept the End-User License Agreement (EULA) associated with the notebook.

In that case, the Italian Supreme Court considered that hardware and software *are two distinct and structurally divisible assets, subject of two different types of negotiation*, and that the object of the sales contract is only the notebook purchased by the consumer.

The Supreme Court again intervened in a similar case with decision no. 4390/2016, confirming what had been established with the previous judgment of 2014.

In this regard, the Court ruled that *the packaging at source of Windows-Microsoft hardware and operating system (as well as any other paid operating system) would respond [. . .] to a commercial policy aimed at the forced diffusion of the same*. In this way, the Supreme Court has set a limit to the phenomenon of software bundling.

### 21.2.7 Burden of Proof for the Violation of Consumer Interests

Legislative Decree 19 January 2017, no. 3, which came into force on February 3, 2017, introduced a substantial and procedural regulation on the protection of damages in the event of violations in the field of competition law.

The Decree set out *the implementation of Directive 2014/104/EU of the European Parliament and of the Council of 26 November 2014 concerning certain rules governing actions for compensation for damages under national law for violations of the provisions of law competition between the Member States and the European Union.*

It is important to point out that the Supreme Court had ruled on the matter, namely with the decision rendered on May 28, 2014, no. 11904: the Court had the opportunity to underline that *where the Competition and Market Authority has sanctioned an undertaking (in this case, an insurance company) for participating in an agreement restrictive of competition, the consumer who promotes redress action of the damage carries out the burden of proof against him with the production of the sanction (which must be recognized high aptitude to prove both the anti-competitive conduct and the abstract suitability of the same to cause damage to consumers, with consequent presumption of damage for the general of consumers, in which the damage suffered by the individual is included) and of the contract with the company (in this case, insurance policy), while it is up to the latter to demonstrate the interruption of the causal link between the antitrust fault and the damage suffered consumers, as much as the individual; having ascertained the existence of a compensable damage, the judge can proceed in an equitable manner to the relative liquidation (in this case, determining the compensatory amount in a percentage of the premium paid).*

In the same line, the abovementioned Decree establishes: *1. For the purposes of the action for compensation for damages, the violation of the competition law established by a decision of the competition authority and the market referred to* *in article 10 of the law is considered conclusively to the author. October 1990, no. 287, no longer subject to appeal before the court of appeal, or from a judgment of the court of appeal having become final. The judicial review of the appeal court involves the direct verification of the facts underlying the contested decision and also extends to the technical profiles which do not present an objective margin of opinion, the examination of which is necessary to judge the legitimacy of the decision. The provisions of the first sentence concern the nature of the violation and its material, personal, temporal and territorial extent, but not the causal link and the existence of the damage.*

*2. The final decision by which a national competition authority or the court of appeal of another Member State establishes an infringement of competition law constitutes proof, as regards the author, of the nature of the infringement and of its material, personal scope, temporal and territorial, evaluable together with other tests.*

*3. The provisions of this Article are without prejudice to the courts and obligations of the court within the meaning of Article 267 of the Treaty on the Functioning of the European Union.*

The point on which it seems opportune to dwell falls within the possibility, for the consumer, to use the decision of the Authority as proof of the unlawful conduct against him.

The benefit will then consist not only in the inspections carried out by the Authority and those that normally the subject itself would not be able to achieve but also and above all in reversing the burden of proof.

Therefore, it can be underlined that although it is true that the result of the Authority's action is not directly addressed to the consumer, it is, however, absolutely so in the case of an action for damages made by the latter.

From this we can then draw a conclusive consideration that the intent of the legislator appears to bring the legal system closer to a law that focuses on the actions of individuals, so as to implement a policy aimed at discouraging behavior to the detriment of consumers themselves; in this way, we would pursue a restorative intent and at the same time try to restore the market's equilibrium.

### 21.2.8 The Right to Repair, the Guarantees, and Product Liability

Article 130 of the Italian Consumer Code provides for the buyer's rights and establishes that the seller is responsible for all the defects existing in the product at the time of delivery. If the product reports defects, the buyer has the right to a free repair of the goods or its replacement. The choice between the repair and the replacement of the product is up to the buyer, unless one of these options is impossible or excessively expensive compared to the other.

In order to evaluate this choice, reference is made to the worth that the goods would have had in the absence of the defect complained of and to its extent, as well as the possibility that the alternative remedy could be carried out without significant inconvenience for the consumer.

The Italian legal system provides that the product warranty is not recognized in case of defects well known to the consumer at the time of purchase or, in any case, so obvious that they cannot be ignored.

The repair or replacement must take place within a “reasonable time,” even if, unfortunately, the Italian legislator has not specified what should be understood by “reasonable.” It is therefore advisable for the buyer to indicate with a written notice to the seller a deadline for the return of the good or its replacement in order to avoid long waits.

With regard to the product’s repairs, the warranty applies only if the replacement or the repair is made by using original parts. The replacement of a broken piece with an unauthorized one implies the decay of the guarantee in case of a further break or malfunction. For this reason, it is necessary to contact only authorized service centers or specialized repair companies that meet the criteria established by the manufacturer.

## 21.3 Balance of Interests

### 21.3.1 Consumers’ Rights in the Italian Legal System

In Italy, as well as in the great majority of democratic countries, the Constitution makes no explicit mention of the rights of citizens as consumers, who therefore find no space between the fundamental rights of social coexistence. The Italian Constitution considers the consumer only very indirectly, when it protects competition as a rule to which the subjects must adapt in carrying out their economic activity.

In our jurisdiction, the consumer is the yardstick of the lawfulness of competitive behavior in relation to many cases; namely, with reference to the likelihood of confusion, the unlawfulness of the competitor’s behavior depends on its suitability to produce confusion in the consumer; the appropriation of merits pursuant to Art. 2589, no. 2, of the Italian Civil Code is illegal when it’s suitable to convince the consumer of the belonging of the merit to a company to which it does not belong; regarding comparative advertising, the comparison is denigrating and therefore illegal if suitable to produce discredit with, firstly, the consumer; finally, false communications are illicit when they are deceptive, i.e., when they are capable of misleading the consumer.

The aforementioned cases have in common, as an essential element, the fact that the consumer can be mistakenly convinced. Consequently, the consumer’s conviction is a decisive factor in the judgment of the illegitimacy of competitive behavior in our legal system.

Further provisions currently in force regarding the consumer’s interests in relation to the protection of brands are Legislative Decree no. 145/2007 and Directive 2005/29 on “Unfair Commercial Practices,” implemented with Legislative Decree no. 146/2007, which has included the content in the “Consumer Code” (Legislative Decree no. 206/2005) in Articles 18 to 27-*quater*.

### 21.3.2 Balance of Interests Between IP Right Holders and Consumers

The prevailing doctrine has asserted for years that the rules on unfair competition directly protect competing entrepreneurs and only indirectly the consumer. However, there has been a gradual enhancement of the figure of the consumer, and since the end of the 1950s of the last century, the consumer's interests have started to be compared to those of other market players.

From the second half of the 1980s of the last century, with the emergence of an increasingly social vision of the economy, consumer's protection (whether direct or indirect) carried out on the basis of the sole discipline of unfair competition was no longer considered enough.

To reinforce it, a broader and more detailed discipline was introduced in relation to the two cases that put the consumer's interests at greater risk, namely misleading and comparative advertising. Furthermore, a specific consumer protection law was drafted, in relation to any deceptive and comparative message of the companies.

So, as already mentioned in the previous point, in order to meet these consumer protection needs was first issued the Directive on misleading advertising of 1984 and then the one on comparative advertising, then reunited and now forms the object of Legislative Decree no. 145/2007. Finally, Directive 29/2005 on "Unfair Commercial Practices" was implemented, with Legislative Decree no. 146/2007, which inserted the content in the "Consumer Code" (Legislative Decree no. 206/2005) in Articles 18 to 27-*quater*.

The antitrust discipline represents a form of intervention of public authorities in the economy. This phenomenon is wholly different: the lawmaking policy, the economic theory, and the antitrust law itself.

The choice of the economic objectives of the antitrust discipline belongs to the lawmaking policy, which contemplates the opposing interests by defining which ones are worthy of protection.

The identification of the content of economic objectives belongs, instead, to the economic theory, which describes and explains what happens in reality when one or more companies adopt certain behaviors in terms of efficiency and well-being of the community and, therefore, of the consumer.

Finally, antitrust law identifies the conditions under which the entrepreneurial behavior can be considered illegal (which economic theory and competition policy establish to be anticompetitive).

In this sense, consumer interests are duly taken into account when exercising discretion in our competition/antitrust law, and the economic approach in competition/antitrust law is sufficient to attract consumer interests.

**Acknowledgements** Special thanks go to Camí Garcia i Carreté, associate lawyer and Maria Tusa, trainee at Jacobacci Milan for their significant help and fruitful cooperation in the drafting of this publication.

# Romania

# 22

Paul-George Buta

## 22.1 Introduction

While it is commonly accepted that the holders of intellectual property rights can defend against infringement of such rights, an extension of the protection conferred by statute so as to encompass interests beyond the limits of such rights is not widely accepted in the literature.

After the adoption of the New Civil Code,[1] there has been some debate as to the qualification of interests that are protected by law in Romania. This is because Article 1349 para 1 of the Civil Code provides that liability under tort can be triggered by an infringement of the rules of conduct that law or customs impose that affect, by action or inaction, not only the rights but also the legitimate interests of another. Moreover, Article 1359 of the Civil Code provides that the infringer needs to cover the damage incurred as a result of the illicit act also where such damage is caused to the interest of another where such interest is legitimate and serious and, by its manifestation, creates the impression of a subjective right.

This addition to liability under tort for infringement of an interest of a third party has created some confusion with respect to the legal qualification of such interest, given the fact that an "interest to act" was already included in the conditions for a civil claim in addition to procedural capacity, standing and the formulation of a claim. Therefore, the substantial law interest, especially in what concerns its "legitimate" character, has sometimes been superimposed on the procedural interest,

[1]Romanian Civil Code adopted by means of Law no. 287 of 17 July 2009, M. Of. no. 511 of 24 July 2009.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_22

defined as an interest to act. This has caused the extent of the interests protected by law to be limited since it required, for the infringement of an interest to be sanctioned, that a claim to this end be allowed by law, which, additionally, was only considered to be allowed under tort in respect of subjective rights only.

This circular argument appears to us as invalid, and we agree with the newer literature[2] in the sense that the two are distinct and therefore the law allows for a claim under tort for infringement of an interest, even where such is not expressly provided by law as a legally protected right for the infringement of which specific action may be taken.

In this context, we believe that the boundaries of interests of intellectual property rights that can be considered as legally protected exceed the strict and explicit limits provided by the applicable law and should therefore allow for a wider scope of protection of intellectual property rights in Romania.

## 22.2 The Scope of Legal Protection of Intellectual Property Rights in Romania

The legally protected interests of holders of intellectual property rights expressly provided for are mainly included in the specific laws governing the protection of each such right in Romania. The list of protected interests is also complemented by applicable international and European Union acts and by the interpretation of such by Romanian courts and the Court of Justice of the European Union, hereinafter CJEU.

### 22.2.1 The Specific Enactments

Law no. 84/1998[3] concerning trade marks and geographical indications, hereinafter "Romanian Trade Marks Law," provides the owner of a trade mark with an exclusive right to use the sign protected as a trade mark to identify the goods or services marketed by the owner or with his consent. The exclusive right thus conferred allows the right holder to exclude any unauthorized use of an identical or similar sign for identical or similar products or services, where such would be likely to cause confusion in the mind of the relevant consumer as to the commercial origin of the products or services. Marks enjoying a reputation can be opposed also to uses made for products or services different from those for which the trade mark is protected where the use affects the reputation or distinctive character of the trade mark. The

[2]S. Neculaescu, Repararea prejudiciului în cazul răspunderii delictuale, In: Marilena Uliescu (coord), Noul cod civil. Studii și comentarii. Vol. III. Partea I. Cartea a V-a. Despre obligații (Article 1164-1649), Universul Juridic 2014, pp. 602–604.

[3]Law no. 84 of 15 April 1998 concerning trade marks and geographical indications, M. Of. no. 161 of 23 April 1998.

limits of enforcement of the exclusive right are set by the uses likely to affect one of the functions of the trade mark: the essential function of indicating the trade origin of the product or service, the function of guarantee of quality, the function of consumer protection, the function of advertising for the right holder. Trade marks generally need to be registered in order to be protected, but well-known trade marks are protected in Romania even without being registered here from the moment they acquire such well-known character. The Trade Marks Law provides equal protection to Romanian trade marks, to European Union trade marks, and to trade marks that are registered in Romania pursuant to an international application designating Romania. Moreover, the Trade Marks Law provides a conditional protection to applications for trade marks as of the date of the publication of the application, provided that the trade mark is ultimately registered.

Law no. 129/1992,[4] hereinafter "Romanian Designs Law," provides an exclusive right in the exterior of a product or a part of it graphically represented, in two or three dimensions, by means of its main characteristics (especially lines, contours, color, form, texture, materials, or ornamentation). For a design or model to be protected, it must be new, have individual character, and not be excluded by law. The right can be enforced against any commercial act undertaken in respect of a product that incorporates the design or model or produces upon the relevant user the same overall visual impression.

Law no. 64/1991[5] concerning patents, hereinafter "Romanian Patents Law," grants an exclusive right on an invention, provided that the invention is new, presents an inventive step, and has industrial application. The exclusive right allows the right holder to prevent any use of the invention, provided that the use does not fall within a limitation to the right specifically provided by law. Thus, the right holder can prevent the making of the product object of the invention, the use of the process object of the invention, or the making of the product directly obtained by the use of the process that the patent protects.

Romania protects authors' rights under Law no. 8/1996,[6] hereinafter "Romanian Copyright Law," which provides for the protection of both moral and economic rights. Rights normally arise in the natural person who created the protected work. Any type of work can be protected as long as it is the author's own intellectual creation. Fixation of the work in a tangible medium is not required. The author enjoys five moral rights—divulgation, attribution, right to choose the name under which the work is published, right to protect the integrity of the work, and the right to retract the work—and two economic rights—exclusive use and *droit de suite*, a right granted to artists or their heirs to receive a fee on the resale of their works. The exclusive right of use gives the owner the possibility to use, authorize, or prohibit

[4]Law no. 129 of 29 December 1992 concerning the protection of industrial designs and models, M. Of. no. 1 of 8 January 1993.

[5]Law no. 64 of 11 October 1991 concerning patents, M. Of. no. 212 of 21 October 1991.

[6]Law no. 8 of 14 March 1996 concerning copyright and related rights, M. Of. no. 60 of 26 March 1996.

another from using the work in any way that does not fall within one of the limitations specifically provided by law. The Romanian Copyright Law also provides protection for related rights for performers, record producers, producers of audio-visual recordings, and broadcasting organizations. The related rights mainly have an economic component only, with only limited moral rights. A *sui generis* right for the protection of database designers is also provided in the Romanian Copyright Law, which allows right holders to exclusively authorize or forbid the extraction or reuse of the whole or substantial part of the database for the duration of the term of protection.

Law no. 350/2007[7] concerning utility models grants upon right holders the same rights as a patent would, but for a shorter time period. In contrast to patents, utility models protect a technical invention that is new, surpasses the level of a simple professional skill, and is capable of industrial application. Certain subject matters are expressly excluded from utility model protection.

Topographies of integrated circuits are regulated by Law no. 16/1995[8] and are protected if they are original, for a term of 10 years. The right holder then has the exclusive right to use the topography and to authorize or forbid its copying, commercial use, or import to that end or that of any semi-conductor product manufactured using the topography.

New plant varieties are regulated by Law no. 255/1998[9] and are protected if they are new, distinct, uniform, and stable. The owner is granted the exclusive right to use the variety and to prevent any unauthorized third party from producing or reproducing the variety or from any commercial act with respect to the variety or to a variety essentially derived therefrom.

### 22.2.2 Protection of Interests Beyond the Limits of Specific Rights

As mentioned above, we do not believe that the list of interests as expressly laid out in the specific laws regulating the various intellectual property rights is exhaustive, any particular interest falling within the scope of protection being one that can be recognized by the courts.

In practice, the Bucharest Tribunal has held that the claimant is in the best position to identify what the particular affected interests are and which remedy is best suited to address them and, also, that the mere fact that a remedy is provided by law to protect an interest of the intellectual property right holder does not mean that said remedy is automatically available irrespective of a balancing of that interest with the rights and interests of third parties.[10]

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[7]Law no. 350 of 3 December 2007 concerning utility models, M. Of. no. 851 of 12 December 2007.

[8]Law no. 16 of 6 March 1995 concerning the protection of integrated circuits topographies, M. Of. no. 45 of 9 March 1995.

[9]Law no. 255 of 30 December 1998 concerning the protection of new plant varieties, M. Of. no. 525 of 31 December 1998.

[10]Bucharest Tribunal, 5th Civil Division, decision no. 485 of 1 March 2012.

However, the High Court has held that the court can't evaluate all distant, possible, or indirect effects when appraising the legitimacy of the interests of the intellectual property holder and the availability of remedies specifically provided by law.[11] Thus, it held that the interest of the holder of a trade mark to claim for the revocation for non-use of a similar trade mark is not barred by the possibility that the competitor be excluded from the market, even if such were deemed an illegitimate interest, such not being a direct consequence of the claim for revocation itself.

In conclusion, it would appear that courts are generally open to accommodating claims for the protection of interests of intellectual property right holders, even if such are not strictly those specifically provided by law, provided that those interests fall within the general scope of the protected rights and the remedies claimed are balanced with regard to those interests, with the legitimate interests of third parties, and with the general interest.

When doing so with respect to trade marks, some qualifying circumstances appear to be of importance.

The well-known character or repute of a trade mark, which are inherent to the value of a brand and are based on the degree of public knowledge, be it relevant or general public, and, consequently, on the quality of the products or services, is a qualifying circumstance for right holders to claim protection against the use of an identical or similar sign even for products or services different than those for which the trade mark is protected where such use is likely to affect the reputation or distinctive character of the trade mark or take undue advantage of such. Moreover, the well-known character of a trade mark is a qualifying circumstance to claim protection of an unregistered trade mark.

## 22.3 Protection of Intellectual Property Rights in Matters of Distribution

There are no express statutory provisions in Romania distinguishing between the various types of distribution in terms of the protection conferred to trade marks. Some indirect inferences can be made from the provisions dealing with the standing of licensees in enforcement claims and with the additional grounds for refusal and annulment deriving from the quality of the agent/representative of the applicant.

Thus, a non-exclusive licensee is presumed not to have standing in a claim for the enforcement of rights in the trade mark unless contractually it was agreed otherwise. An exclusive licensee, on the other hand, can have standing to bring such a claim if he has notified the trade mark proprietor and the latter has taken no action in the deadline set by the exclusive licensee. This would impact the type of distribution chosen, given the fact that exclusivity in licensing a right with a territorial limit (usually of national scope) is more akin to an exclusive nationwide distribution model than to other types of distribution.

[11] High Court, 1st Civil Division, decision no. 1297 of 15 May 2015.

In addition to the above, the Romanian Trade Marks Law provides for a distinct relative ground of refusal and annulment where the trade mark was applied for, or registered by, the agent or representative of the foreign trade mark owner under its own name, where the agent or representative can't prove that he had power to do so. Therefore, it would appear that the applicant's status of agent or representative, which has been expanded by the Romanian courts[12] to include any form of organization allowing the foreign trade mark holder to have any right of control or coordination or direction over the Romanian undertaking, would be a circumstance raising an additional layer of protection for the foreign trade mark holders in Romania. The same court held that the mere ongoing sale-purchase transactions between the parties would not suffice to consider the Romanian undertaking an agent or representative of the foreign trade mark holder. Moreover, the same decision proposed a narrow interpretation of the statute in that, on the one hand, only an application for an identical sign for identical products would fall under this specific ground for refusal and, on the other, the foreign partner would need to be the holder of a registered foreign trade mark—the court curiously held that the registration would need to be in an EU country—at the date of the filing of the application and not a mere applicant himself.

Other than the above, the specific restrictions deriving from the application of competition law rules pertaining to vertical agreements also limit the possibilities of enforcement available to intellectual property right holders in Romania. As their application generally follows the lines set by the European Commission, as laid out in Regulation 330/2010,[13] hereinafter "Regulation 330/2010," and the relevant secondary instruments and case law, we will not dwell on those limitations here.

### 22.3.1 After-Sales Matters

Under Romanian law, there are no specific after-sales services reserved by law to the holder of intellectual property rights. There is, however, an obligation to fulfill the guarantee for the product, but that obligation only arises when and if the consumer decides to enforce his rights under that guarantee. However, courts have held that if the consumer decides to have an unauthorized third party to repair the product, he may no longer enforce his rights under the guarantee against the seller of the product.

With regard to possible contractual limitations on subsequent sales, we can note that, in Romania, parties may, in their contracts, provide for whatever limitations they agree on, provided that such do not infringe on public order rules, from which there can be no derogation. Therefore, most contractual limitations on subsequent sales are enforceable. Examples of such would be the presentation of the products for

[12]Bucharest Court of Appeals, 4th Civil division, decision no. 342 of 25 June 2015.

[13]Commission Regulation 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ 2010 L 102, p. 1.

sale, the form of the marketing materials, the packaging of the products, proper use of brand owner's identity elements, etc.

There are, however, some limitations that can't be enforced, even if agreed by means of contract. Examples of such would be limitations to the exhaustion of rights, fixing of resale price or of elements of the resale price, territorial limitations not allowed either under Regulation 330/2010 or under an individual exemption. Sharing of sensible information could also be difficult to enforce, even if contractually agreed upon, if the information requested by the brand owner could be used to limit parallel imports or exports.

Thus, with the observance of these limits, and limitations expressly provided by law with respect to the exclusive rights granted to the intellectual property right owner, the exclusive character of intellectual property rights allows the intellectual property right owners a certain degree of control over which uses are authorized and which are not. It therefore seems possible that an intellectual property right owner licenses the use of his rights solely for non-commercial usage, with any commercial usage being excluded. Where commercial use of the right was licensed, it would seem that non-commercial use could not be precluded based on an "ad majori ad minus" interpretation. This is even more so given the fact that there are numerous limitations of the exclusive rights applicable where the use is for a non-commercial purpose. However, if the license were granted for commercial purposes and would be royalty bearing, use of the rights so granted for non-commercial purposes, should such affect the level of royalties paid to the licensor, could be grounds for termination of the license agreement.

The degree of enforcement of contractual limitations would not change on account of a differentiation between on- and offline distribution since, normally, no such differentiation would be acceptable. Conditions for online sales need to be the same as for offline sales, with only well-justified minor modifications. However, after *Coty*,[14] there appears to be more leeway for brand owners distributing their luxury products by means of a selective system to prevent sales on third-party platforms. There has been no post-*Coty* case law in Romania on the subject; therefore, it is difficult to assess the precise limits of the change that the CJEU's decision has made.

### 22.3.2 Geo-blocking

Geo-blocking was mentioned in the Romanian Competition Council's Report on the sector inquiry regarding E-commerce[15] but only inasmuch as it referred to the

[14] CJEU, case C-230/16, *Coty Germany GmbH v Parfümerie Akzente GmbH*, ECLI:EU:C:2017:941.

[15] Romanian Competition Council, Raport al investigației privind sectorul comerțului electronic - componenta referitoare la strategiile de marketing, March 2018, http://www.consiliulconcurentei.ro/uploads/docs/items/bucket13/id13201/raport_al_investigatiei_privind_sectorul_comertului_electronic.pdf. Accessed 8 October 2018.

European Commission's Final Report on the E-commerce Sector Inquiry,[16] essentially holding that while unilateral geo-blocking measures by non-dominant undertakings would fall outside the scope of Article 101 TFEU, geo-blocking measures based on agreements or concerted practices between distinct undertakings may be caught under the provisions of the same article.[17]

Therefore, it would appear that, until the entry into effect of Regulation 302/2018,[18] hereinafter "the Geoblocking regulation," it would appear that a non-dominant intellectual property holder might engage in unilateral geo-blocking in Romania. This would, however, be quite exceptional given the fact that the most prominent online retailers in Romania are generally operating as distributors for the intellectual property right holders, and therefore the distribution agreement would itself be "an agreement between distinct undertakings," which, if it imposes territorial sale restrictions by means of geo-blocking, could fall under the scope of Article 101 TFEU and Article 5 par. (1) of Law no. 21/1996 concerning competition,[19] hereinafter "the Romanian Competition Law."

Note must be made of the fact that the Geoblocking Regulation does not affect the rules applicable in the field of copyright and neighboring rights. As preamble 8 to the Regulation indicates: "Audiovisual services, including services the principle purpose of which is the provision of access to broadcasts of sports events and which are provided on the basis of exclusive territorial licenses, are excluded from the scope of this Regulation."

While, as the EC's Report held, geo-blocking could be construed as a territorial sale restriction and, therefore, a hard-core restriction according to Regulation 330/2010 denying the possibility of a block exemption, one could consider the theoretical possibility, which never materialized in Romanian practice, that an agreement containing a hardcore restriction could benefit from an individual exemption.

Alternatively, should the geo-blocking measure be considered as only limiting active sales within the boundaries allowed by Regulation 330/2010, such provision could be considered block exempt and, pursuant to a *per a contrario* interpretation of Article 6 (2) of Regulation 302/2018, allowed even after the entry into force of the Geoblocking Regulation.

Obviously, given the application of EU rules on competition law and the Geoblocking Regulation, geo-blocking consumers outside the EEA would normally be allowed. However, the Romanian Competition Council has, in the past, fined

[16]Report from the Commission to the Council and the European Parliament. Final report on the E-commerce Sector Inquiry. COM(2017) 229 final, 10 May 2017, http://ec.europa.eu/competition/antitrust/sector_inquiry_final_report_en.pdf. Accessed 8 October 2018.

[17]Idem, para 48.

[18]Regulation 2018/302 of the European Parliament and of the Council of 28 February 2018 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market and amending Regulations 2006/2004 and 2017/2394 and Directive 2009/22, OJ 2010 L 60I, p. 1.

[19]Competition Law no. 21 of 10 April 1996, M. Of. no. 88 of 30 April 1996.

undertakings for having concluded agreements limiting exports to countries outside the EEA where such ban would have had, in the RCC's opinion, effects on the Romanian market by way of limiting parallel imports into Romania or altering the structure of the Romanian distribution market by limiting the profits that could be made by the Romanian distributors.[20] This argument received support from the Romanian courts of law.[21]

Agreements providing for geo-blocking measures would therefore appear to only be allowed where justified by the existence of national copyright or related right restrictions or, possibly, where allowed under the rules for limiting active sales under Regulation 330/2010.

As already indicated, the Geoblocking Regulation specifically excludes from its scope the services for which exclusive territorial licenses are granted. The Romanian Competition Council has also found[22] that licenses for such rights are national in scope, albeit in its opinion this would be due to the high importance of cultural and linguistic factors.

An important distinction ought to be made with regard to rights in the bundle of copyright and related rights that are subject to exhaustion and those that are not. Rights that are subject to exhaustion can no longer be enforced in the common market. Rights that are not subject to exhaustion may be enforced on a territorial basis and preclude the application of Articles 5 (1) of the Romanian Competition Law and Article 101 TFEU, but such enforcement would still be subject to the provisions of Article 6 of the Romanian Competition Law and Article 102 TFEU prohibiting abuse of dominance.

### 22.3.3 E-commerce Platforms

Pursuant to the transposition in Romania of the IP Enforcement Directive 2004/48,[23] the same provisional measures of enforcement of intellectual property rights available to right holders against direct infringers are also available against intermediaries whose services are used by a third party in order to infringe. This is explicitly stated in Article 139 (5) of the Romanian Copyright Law, in Article 91 (4) of the Romanian Trade Marks Law, in Article 53 (4) of the Romanian Designs Law, and Article

[20] Romanian Competition Council, Decision no. 98 of 27 December 2011 (Bayer, Sintofarm, Mediplus Exim, Polisano, Relad International, Farmexim, Farmexpert DCI, Fildas Trading, Montero, ADM Farm, Dita Import Export, and PharmaFarm), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket7/id7390/decizie_site.pdf. Accessed 8 October 2018.

[21] High Court, Administrative division, decision no. 2067 of 22 June 2016.

[22] Romanian Competition Council, Decision no. 63 of 11 December 2017 (RCS&RDS, LPF, Champion Football Management), p. 15, available at http://www.consiliulconcurentei.ro/uploads/docs/items/bucket13/id13264/decizia_63_din_11122017-neconfidential.pdf. Accessed 8 October 2018.

[23] Directive 2004/48 of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights, OJ 2004 L 157.

61 (4) of the Romanian Patents Law. The specific act of transposition of the IP Enforcement Directive, Emergency Government Ordinance 100/2005, hereinafter "GEO 100/2005,"[24] although transposing the Directive only in part since its scope is restricted to industrial property rights, provides the same in Article 9 (2).

The specific laws indicated above provide that both preliminary injunctions and measures meant to secure evidence are available against intermediaries. GEO 100/2005 provides, solely with regard to industrial property right holders, that they may also seek that a guarantee be posted so as to secure the recovery of damages. With regard to copyright, the Romanian Copyright Law provides more widely that preliminary measures intended to insure recovery of damages may be taken by the court upon request of the right holder, including liens on movable and immovable property, freezing of bank accounts, and other assets. To this effect, the court can also order that banking, financial, and commercial information be disclosed or provided access to. Moreover, solely with regard to copyright, the Romanian Copyright Law provides that the court can also, in preliminary proceedings and at the request of the right holder, order that suspected counterfeit merchandise be seized or surrendered to prevent entry of such merchandise into the commercial circuit.

While the same provisional measures are also provided by GEO 100/2005 with regard to industrial property rights, these would appear not to be available against intermediaries, as in the case of copyright.

GEO 100/2005 does, however, specifically provide for the industrial property right holder's possibility to ask through court orders, by means of preliminary measures, that a person providing, for commercial purposes, services used in the infringement supply information regarding the origin and distribution network of the products or services infringing the relevant industrial property rights. This information must include the names and addresses of producers, manufacturers, distributors, providers, and other previous holders of products and services, as well as those of wholesalers and retailers, and information as to the quantities produced, manufactured, delivered, received or ordered, as well as the price for such products or services.

In what regard the right of information, the High Court has held[25] that the mere fact that an intermediary provides, for commercial purposes, services used to infringe industrial property rights is not sufficient, by itself, to conclude that said intermediary is bound to supply the information requested by the right holder. The court noted that it must be proven that, depending on the actual services provided and the nature of the information sought, the intermediary has that information and can effectively supply it.

The case concerned the liability of the provider of a web-hosting platform on which the infringers had set up subdomains hosting websites for the sale of

[24]Emergency Government Ordinance no. 100 of 14 July 2005 concerning enforcement of industrial property rights, M. Of. no. 643 of 20 July 2005.

[25]High Court, 1st Civil Division, decision no. 1059 of 16 June 2017.

infringing products. The court held that since the platform provider was not the administrator of the subdomains and did not use the information there hosted, it did not have a direct report with the infringers and therefore could not be held to supply the information requested by the right holders.

The High Court also controversially found a distinction between the situation of a direct infringer and that of an intermediary ISP in what regard the scope of the right of information of the industrial property right holder. While the legal provisions transposing the Enforcement Directive would appear to apply, in whole, to direct infringers and ISP intermediaries as well, the court found that while the supply of information by direct infringers would refer to their own activities, the supply of information by intermediary ISPs would imply supplying personal data obtained as a result of a legal obligation to collect such data. In the latter case, the court found that an express request for such data ought to be made indicating both the object and relevant persons and not a mere general request.

Emphasizing the need to respect the principle of proportionality, the court established that a balancing of the interests at stake needs to be made by the court with regard to the equally protected interests of the intellectual property right holder and the right to privacy of the subscribers to the ISP's service. Therefore, a request for information with regard to the subscriber to the ISP's service needs to be express and needs to be made specifically with regard to the alleged direct infringer.

In a different case, the Bucharest Court of Appeals held[26] that direct proof of the provision of services used for the purpose of the infringement needs to be made in order to attract the liability of the intermediary platform provider.

However, once such proof is made, contractual limitations of liability by the platform provider do not limit the right holder's rights but concern solely the provider and his customer.[27] Furthermore, the court held that the fact that the e-commerce platform provider does not himself sell the infringing products does not exclude his liability if he has allowed the advertising and sale of the infringing products and has obtained an income from such advertising and payment-processing services even after having been made aware of the infringement and having refused to take down the infringing offers of sale. Moreover, in the same case, the court has evaluated damages to the right holder as the equivalent of the commission that the intermediary has obtained for the services used for the purpose of the infringement.

Romanian courts have issued preliminary injunctions against providers of hosting services for websites containing links to works infringing copyright[28] and against providers of hosting services not hosting the Internet domain on which the website containing links to infringing works is located but just the backend of such website, where the linked-to infringing content was uploaded by the users of the platform.[29]

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[26] Bucharest Court of Appeals, 9th Civil division, decision no. 81 of 27 February 2014.

[27] Bucharest Court of Appeals, 4th Civil division, decision no. 404 of 23 September 2015.

[28] Bucharest Court of Appeals, 4th Civil division, decision no. 422 of 29 October 2014.

[29] Bucharest Tribunal, 4th Civil division, decision no. 1557 of 28 June 2018.

With specific respect to e-commerce platforms, in a recent decision, the Bucharest Tribunal seems to have treated the platform provider as a direct infringer, together with the e-market partner offering the goods for sale on the platform, completely ignoring the platform provider's arguments that he is merely the provider of a service for the e-market partners.[30] The decision has been appealed by the e-commerce platform provider.

In what communication platforms are concerned, as long as providers of such platforms would be qualified as providers of services used for the purpose of infringing intellectual property rights, right holders would have the same means of redress as in respect of e-commerce platforms and intermediary providers of services in general. A possible contentious point would be the "commercial purpose" of such platforms, which is a condition to attract the liability of intermediaries in case of infringement of industrial property rights, though not of copyright. However, in respect of the "commercial purpose" of such platforms, the existence of such could be determined by the existence of income generated by advertising, and therefore the hurdle should be relatively easy to overcome.

There have been, as yet, no direct claims in Romania made by intellectual property right holders against communication platforms, but courts have found, on various occasions, that intellectual property rights have been infringed by users of such platforms. In such cases, the remedies sought and ordered by the courts was for the infringer to be ordered to either definitely or provisionally eliminate all infringing mentions from their postings on such platforms.[31]

Conversely, the Bucharest Court of Appeals has held that the creation of a Facebook page by the trade mark holder, in which the trade mark was used and associated with the particular line of business, was proof that the right holder still retained an interest in the market for which the trade mark had been used.[32]

Interestingly, Romanian courts have treated communication platforms as e-commerce platforms where the purpose of the communication was considered to be commercial and have therefore qualified the infringement as having occurred for commercial purposes.[33]

As can be observed from the decisions issued by Romanian courts, there is a preponderance of claims for preliminary relief against such platforms. The relief sought is primarily of an injunctive nature, but claims for orders to supply information are also fairly common. There have been few claims requesting that the platform institute specific mechanisms for the protection of brands and for the prevention of infringement, the lack of a response to pre-litigation notifications or cease-and-desist letters being commonly used to disallow the safe harbors for ISPs under Law

[30]Bucharest Tribunal, 4th Civil division, decision no. 1250 of 24 May 2018.

[31]See, for example, Bihor Tribunal, 2nd Civil and Administrative division, decision no. 8228 of 24 October 2014.

[32]Bucharest Court of Appeals, 4th Civil division, decision no. 256 of 11 June 2014.

[33]Bistrita-Nasaud Tribunal, 2nd Civil and Administrative division, decision no. 397 of 3 June 2016.

no. 365/2002 regarding e-commerce, hereinafter "Romanian e-commerce Law," transposing Directive 2000/31.[34]

In order to benefit from the safe harbor, the hosting services provider, if passive in that he has no direct involvement in the information being shared, needs to either prove that he did not know of the infringing activity, the infringing character of the materials or other facts pointing to the fact that the activity or materials are likely to damage the rights of a third party or to show that once he knew, he acted expeditiously for their removal or blocking of access thereto. The High Court held that such ISP is considered to have known of the relevant facts when notified by the right holder with sufficient precision and factual grounds.[35]

Regarding the implementation of a monitoring system, the Bucharest Court of Appeals followed the CJEU's judgment in *SABAM*[36] and held[37] that an intermediary can't be ordered to implement the right holders' technical protection measures in his own software with the purpose of identifying and filtering all possibly infringing content. Thus, any such request that is made in a general manner, for an unlimited period of time and with regard to a part of the information hosted on the intermediary's servers, seems to exceed the scope of the infringed intellectual property rights.

While, as indicated above, Romanian courts do not allow for general monitoring obligations to be imposed upon ISPs, the High Court has held[38] that, where an intermediary ISP merely notifies, informs, and requests an opinion from the infringing customer, such is insufficient for the intermediary to claim protection under the safeguards in the Romanian e-commerce law, even if these would have been the only ones contractually available to him. This is because the measures that the ISP needs to implement are to be aimed at the removal of infringing material or at the blocking of access to them.

### 22.3.4 Reverse Engineering and Decompilation

There is no express protection against reverse engineering in Romania. Reverse engineering could infringe the intellectual property rights of right holders where such act would be deemed to fall within the scope of the exclusive rights granted by law.

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[34]Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce'), OJ 2000 L 178, p. 1.

[35]High Court, 1st Civil Division, decision no. 1610 of 12 June 2015.

[36]CJEU, case C-360/10, *Belgische Vereniging van Auteurs, Componisten en Uitgevers CVBA (SABAM) v Netlog NV*, ECLI:EU:C:2012:85.

[37]Bucharest Court of Appeals, 4th Civil division, decision no. 234 of 5 December 2013.

[38]High Court, 1st Civil Division, decision no. 1610 of 12 June 2015.

In the case of inventions, the Romanian Patent Law forbids the unauthorized making or use of the invention, where the invention is a product, and the use of the process and of the product obtained directly by means of said process, where the invention concerns a process. This includes the use of any equivalent element to those specified in the patent. The law specifically excludes from the scope of this exclusive right any use for experimental purposes or for private use, in both cases the use needing to also be for non-commercial purposes.

In the case of software, the Romanian Copyright Law provides that the authorized user of a computer program may, without specific authorization, analyze, study, or test the functionality of the program in order to determine the ideas and principles upon which any of its elements is based but solely within the operations that the user is allowed to perform.

There was a case[39] in which the plaintiff trade mark holder raised the argument that the dots on its three-dimensional trade mark could not be deemed functional but should be considered as having an esthetical function in the absence of a reverse engineering of the product, which, in the plaintiff's view, would not be allowed. The court did not rule on this argument.

While there is no specific interdiction of decompilation, acts of transformation of the code of a computer program fall within the scope of the holder's exclusive rights. Article 73 (b) of the Romanian Copyright Law indicates that these include the right to object to the translation, adaptation, arranging, and any other transformation of a computer program, without prejudice to the rights of the user.

The copyright owner's rights are, however, subject to two important limitations. The first concerns acts, including decompilation, necessary to allow the authorized user to use the program according to its destination, including the correction of errors, and the second concerns decompilation for the purpose of insuring interoperability of the program with other computer programs. The latter is subject to some additional conditions. The decompilation needs to be done by an authorized user or on his behalf, the required information is not readily accessible to either of these persons, and decompilation is limited to those parts necessary to achieve interoperability. Moreover, the information so obtained can only be used for the purpose of achieving interoperability, cannot be communicated to third persons except where necessary to achieve interoperability, and cannot be used in the development of a similar computer program or in any way that would infringe the rights of the copyright owner. Decompilation is also not allowed where it prejudices the copyright owner or affects the normal use of the computer program.

Romanian courts have so far not ruled on the application of these provisions, so it is difficult to make a substantial evaluation of the application of these rules. However, we believe that a shortcoming in the statutory provisions refers to the fact that it is not clear whether experimental use for the purposes of reverse engineering is allowed and, if so, whether such experimental use conducted by a

[39]Bucharest Court of Appeals, 4th Civil division, decision no. 151 of 2 March 2016.

commercial undertaking during patent protection could qualify as made for non-commercial purposes or not.

## 22.4 Limitations of Legal Protection Regarding Intellectual Property Rights

### 22.4.1 Exhaustion of Rights

#### 22.4.1.1 Substantial Scope of Exhaustion

The general standard for exhaustion of intellectual property rights in Romania follows EU standards and therefore imposes exhaustion of sale-related rights in respect of products first sold in the EEA by the right holder or with his consent.

The Romanian Copyright Law provides for the exhaustion of the distribution right, which is an economic right of the copyright owner, upon the first sale or transfer of ownership in the original or copy of a work, in the internal market, by the owner or with his consent. The same is again provided with respect to the original or copies of sound or video recordings.

With regard to software, Article 73 (2) of the Romanian Copyright Law provides that the right to control the distribution of the copy of a computer program is exhausted upon the first sale of that copy, on the internal market, by the owner or with his consent.

The same act specifically excludes from the scope of exhaustion the lending right and the right to public communication, including the making available.

Article 38 of the Romanian Trade Marks Law provides that rights to the trade mark are exhausted, and the owner can't prevent its use by others, for products placed on the market in the EEA under the trade mark, by the owner or with his consent. The second paragraph allows for the right of intervention where there are justified grounds to do so, especially where the state of the products is modified or altered after their being put on the market.

Exhaustion is also provided for with regard to rights in designs and models where products incorporating the designs or models—or products to which the same apply—have been placed on the EU market by the owner or with his consent. The language of the provision is somewhat incorrect, literally providing for exhaustion of the rights in products marketed in the EU if the products were marketed by the owner or with his consent, irrespective of where such marketing occurred.

The same is true with regard to patents. Article 33 (d) of the Romanian Patent Law provides for exhaustion of rights to sell and offer for sale, in the EU, of products that form the object of the invention that have been previously sold by the patent owner or with his consent.

Despite the wording of the provisions, there is a general understanding that these provisions follow imperative EU standards, in the sense that exhaustion only intervenes where the products are first marketed in the EEA, by the intellectual property right holder or with his consent, and that exhaustion only operates at EEA level and not internationally.

#### 22.4.1.2 Mechanism of Exhaustion

With regard to the mechanism of exhaustion, the Bucharest Tribunal has held[40] that exhaustion operates when the products are sold, i.e., they are released in the market by an act of sale. In this case, the court considered that products ordered by a Romanian company to suppliers outside the EEA for the purpose of being marketed in Romania were not subject to exhaustion in respect of the EEA even if the orders were made pursuant to a license granted by the trade mark holder.

It therefore appears that, in the opinion of Romanian courts, in order for exhaustion to apply, there needs to be an act of sale made in the EEA by the intellectual property right holder or with his consent.

In the case of copyright, the law itself indicates that a transfer of ownership will exhaust the distribution right, regardless of the legal mechanism involved. Therefore, any transfer of ownership in the original or copy of the work will exhaust the distribution right with respect to this original or copy.

The wording of the statutes diverges with regard to industrial property rights; for patents, the wording specifically requires an act of sale, while for trade marks and designs it requires, cryptically, that the products be "placed on the market."

Even though, as indicated above, Romanian courts have held that a sale is needed, we believe that the court has not made the statement with the intention of excluding all other forms of transfer of ownership from the scope of situations where exhaustion is to operate but rather, in context, with a view to emphasizing the moment where the trade mark owner has realized the value that the product bearing the trade mark was to generate for him.

Moreover, given the fact that ownership in a product, once obtained, is guaranteed by the Romanian Constitution,[41] the normal interpretation would be to extend the scope of exhaustion to all situations where there has been a transfer of ownership, in the respective products, made in the EEA by the intellectual property right holder or with his consent, irrespective of the legal mechanism involved, whether sale-purchase, donation, or inheritance.

With respect to rental or leasing agreements, note must be made to the fact that the Romanian Copyright Law specifically excludes exhaustion of the lending right. The same is true for the right of rental of the work.

With regard to industrial property rights, given that Romanian courts have required that an act of sale take place in order for exhaustion to apply, even if extended to other means of transfer of ownership, rental and lease contracts would not qualify for exhaustion to apply, given the fact that there is no transfer of ownership in the products.

Where the rental or lease agreement provides for the right to subrent or sublease the products protected by an intellectual property right, the right to do so would stem from the contract and not by operation of law, as a result of exhaustion.

[40] Bucharest Tribunal, 3rd Civil division, decision no. 1422 of 9 November 2016.

[41] Romanian Constitution (amended), M. Of. no. 767 of 31 October 2003.

#### 22.4.1.3 Limits of Exhaustion

Regional exhaustion, at the level of the EEA, has been confirmed by the Romanian courts on multiple occasions,[42] also indicating that, as an effect of EU law, Romanian law can't be interpreted as allowing for an international exhaustion of rights.

These limitations to the scope of exhaustion cannot be derogated from by means of contract since provisions regarding the exhaustion of intellectual property rights are considered to protect a general interest and to stem from the obligations assumed by Romania under the TFEU.[43] We believe that these current EU-wide applicable rules for exhaustion are sufficiently clear, and therefore the regulation of exhaustion by means of international agreements would not be useful. The regulation of exhaustion of rights is intertwined with the application of rules pertaining to competition law, and since there is no international regime of competition law, an international regime for exhaustion of rights would seem inadequate.

In order to minimize the impact of exhaustion, right holders contractually provide in detail all the limitations of their consent, making sure that a possible consent to market in the EEA is not easily inferred but rather needs to be very explicit. In this case, sales or purchases made outside of the EEA are not qualified as representing consent to also market in the EEA.

The burden of proving that exhaustion has occurred is always with the party claiming so and that party needs to prove the right holder's consent with regard to each and every physical product for which exhaustion is claimed.[44] Where the party succeeds to do so, the right holder may argue on the limits of the consent that the party claiming exhaustion has relied on in order to prove that there was no consent to market in the EEA.

#### 22.4.1.4 Exhaustion and Digital Goods

As indicated above, the Romanian Copyright Law provides that the distribution right with regard to a copy of a computer program is exhausted upon the first sale of that copy on the internal market if it is made by the copyright owner or with his consent.

As the definition of copies provided by the Romanian Copyright Law clearly includes digital copies, it would seem that a transfer of ownership in a digital copy of a work would exhaust the distribution right with regard to that copy.

Registration of software in Romania is required for producers and distributors of computer programs. This registration is, however, just an administrative requirement, with no impact on the protection of copyright in the software. Moreover, mere registration of the software in Romania would normally not be sufficient, by itself, to prove consent to market the program in Romania. Even less so would such registration be useful to prove consent to market a specific copy of the computer program in Romania.

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[42] High Court, 1st Civil Division, decision no. 2004 of 21 October 2016; Bucharest Court of Appeals, 9th Civil division, decision no. 55 of 14 March 2013.

[43] Bucharest Court of Appeals, 4th Civil division, decision no. 322 of 4 May 2016.

[44] High Court, 1st Civil Division, decision no. 2004 of 21 October 2016.

#### 22.4.1.5 Exhaustion and Protection of Brands

On a general level, exhaustion of rights prevents brand owners from intervening in the resale of products bearing the brand after an initial sale made by the brand owner or with his consent. This means that the use of the brand in these subsequent sales is placed outside the remit of the brand owner and can, therefore, be of such nature as to affect the brand's value. Moreover, inability to control the further commercialization of branded products means that there is little scope for price discrimination among customers who have a different marginal utility for the branded product.

However, the law allows for an intervention of the brand owner, even if exhaustion would apply where there are justified reasons to do so, especially where the products have been modified or altered after the sale made by the brand owner or with his consent.

Currently, the issues most frequently discussed in relation to the exhaustion of IP concern the impact of various distribution realities on the operation of the exhaustion of rights. It is very common for a distributor in Romania to order the branded products from a brand-owner-authorized manufacturer in a non-EEA country. The order is made for the branded products to be marketed in Romania. In such a scenario, the Bucharest Tribunal held that there is a first authorized sale made in the non-EEA country, which does not trigger exhaustion of rights in the common market, and a subsequent sale, in Romania, when the products are sold there by the distributor. Only the second sale, if authorized by the brand owner, causes exhaustion of IP rights in the EEA.

Romania being a part of the internal market, it must align its legislation and judicial practice to that of the EU in all matters that affect the functioning of the internal market, including the free circulation of products between the Member States. Therefore, parallel imports are not only allowed, but they can't also be prevented as long as the products imported originate from another EU country.

The Romanian Competition Council has continuously monitored that parallel imports from EU countries are not in any way impeded or stifled by horizontal or vertical agreements concluded in Romania. Heavy fines were imposed on those whom the Council has found to have included in their provisions aimed at impeding or limiting parallel imports or exports from and into EU countries. In one decision,[45] the Council sanctioned two different vertical agreements: the first being between the manufacturer and his exclusive Romanian distributor, which was held to contain a ban on internal passive sales and passive exports, and the second between the manufacturer and his exclusive distributor in the Netherlands, which was held to contain a ban on passive sales outside the exclusive territory, including in Romania.

[45] Romanian Competition Council, Decision no. 64 of 7 December 2015 (SENTRY EQUIPMENT CORP, AD.ECO 98 SRL, INTERLINE SYSTEMS BV), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket11/id11004/decizia_adeco_finala_confidentializata_pentru_site.pdf. Accessed 8 October 2018.

## 22.5 Antitrust Law and IP Rights

The most common limitation deriving from competition law in what concerns protection of brands regards the application of the principle of exhaustion of rights. Other than the application of this general principle, general rules applicable under competition law are equally applicable to intellectual property right holders seeking to protect their brands.

The Romanian Competition Council held, in *Actavis*,[46] that, in accordance with CJEU case law, the mere holding of an intellectual property right is not sufficient, in itself, to establish a dominant position.

In *Euroconsulting*,[47] the Romanian competition authority held that the mere application of enforcement of intellectual property rights through customs measures can't be considered an anticompetitive action undertaken by state authorities.

In *Baxter*,[48] the Competition Council held that the intellectual property right holder could not invoke such rights as grounds for a ban on exports from Romania (where exhaustion was held to have occurred on account of the products being marketed there by the right holder or with his consent) or for a ban on parallel imports from EEA countries after Romania's accession to the EU in 2007.

The possibility of a refusal to deal by an intellectual property right holder was indicated as a possible abuse of dominance in certain decisions by the Romanian Competition Authority,[49] hinting that it would follow the practice of the CJEU and indicating as reference the decisions in *Magill* and *IMS Health*.[50]

The general principles defining the relationship between the protection of brands and competition law would seem to confirm the full application of both sets of rules, provisions protecting intellectual property rights, and rules pertaining to competition law, the former generally being held to be freely enforceable, to the full extent provided by law, but only to the point where core rules of competition law would be

[46] Romanian Competition Council, Decision no. 3 of 20 January 2010 (ACTAVIS, NOVARTIS), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket2/id2268/decizie_actavis_site.pdf. Accessed 8 October 2018.

[47] Romanian Competition Council, Decision no. 216 of 6 November 2006 (Euroconsulting International SRL, Transeuro Import-Export SRL, Alfeus Trade SRL, SDV Free Tax SRL, Biroul Vamal Constanta Sud), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket2/id2114/decizii_2006_216.pdf. Accessed 8 October 2018.

[48] Romanian Competition Council, Decision no. 52 of 28 October 2011 (Baxter AG, Actavis SRL, Farmaceutica Remedia SA, Sofmedica SRL), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket7/id7314/decizie_finala_52.pdf. Accessed 8 October 2018.

[49] Romanian Competition Council, Decision no. 31 of 22 June 2012 (Arcelor Mittal Galati SA), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket7/id7506/dec_31_de_publicat.pdf; Romanian Competition Council, Decision no. 9 of 3 March 2015 (RCS&RDS SA), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket10/id10390/decizie_9_2015.pdf. Accessed 8 October 2018.

[50] Romanian Competition Council, Decision no. 56 of 16 October 2012 (RCS&RDS SA), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket8/id8143/decizie_56_neconf_plangere_rcs_vs_antena_group.pdf. Accessed 8 October 2018.

infringed. Thus, there has been in practice little leeway for limiting parallel imports or exports within, and in some cases even outside, the EEA, but there is a wide area of enforcement that seems to be considered to fall outside the scope of abusive practices, even where a dominant position is held to exist.

These general principles are reflected in the relevant case law. For instance, the Romanian Competition Council held, in *Actavis*,[51] that application of the excessive pricing theory of harm is more difficult when intellectual property rights are involved as these rights are meant to protect the high investments made by an undertaking by means of a time-limited legal monopoly. Challenging excessive prices would thus undermine the very reason for existence of intellectual property rights; therefore, a product protected by means of intellectual property rights should not, in principle, be the object of an investigation on excessive pricing. The competition authority held that even if the intellectual property right were not justified on account of a high investment, an investigation into a possible abuse of dominance should not concern possible excessive pricing but solely exclusionary forms of abuse.

Specifically, with regard to the provisions of products including software "as a service," the law contains no express limitations aimed at enabling competition in downstream markets. The general framework regulation concerning anticompetitive exclusionary acts would apply.

Thus, an agreement between undertakings (be it vertical or horizontal) with the object or effect of foreclosing competition on a downstream market could fall under the provisions of Article 5 (1) of the Romanian Competition Law and Article 101 TFEU, which the Romanian competition authority can, and must, apply whenever the anticompetitive act significantly affects trade between Member States.

Moreover, exclusionary abuses of dominance, most significantly a refusal to deal, could fall under the provisions of Article 6 of the Romanian Competition Law and Article 102 TFEU.

Moreover, specifically with regard to software, even when offered "as a service," the limitations to copyright provided by the Romanian Copyright Law mentioned above would apply, meaning that there can be no objection to reverse engineering, if performed in the course of normal program operation and decompilation and other transformations where needed for interoperability purposes.

There is no case law in Romania on the bundling of sales, but this could be deemed as a possible abuse of dominance where the seller enjoys such a dominant position on the market. There is a presumption of dominance under Romanian law where the market share of the concerned undertaking is higher than 40% during the period of time analyzed.

[51] Romanian Competition Council, Decision no. 3 of 20 January 2010 (ACTAVIS, NOVARTIS), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket2/id2268/decizie_actavis_site.pdf. Accessed 8 October 2018.

## 22.6 Protection of Consumer Interests

### 22.6.1 Protected Interests and Burden of Proof

According to the provisions of Romanian Government's Ordinance no. 21/1992 concerning consumer protection,[52] where there is a violation of consumer interests, there can either be a sanction applied by the National Authority for the Protection of Consumers, hereinafter ANPC, or a claim in court made by a private association for the protection of consumer's interests or both.

Obviously, there is no impediment for an interested consumer to himself file a claim in court for relief against the undertaking having infringed on his consumer rights.

In all these cases, the burden of proof rests with the person making the claim. In the case of the procedure conducted by ANPC, the authority needs to very clearly indicate the arguments and proof that it had in view when sanctioning the misdemeanor. An eventual court challenge of the sanctioning minutes will not shift the burden of proof on the plaintiff, but rather the court needs to order and examine all evidence considered useful in order to determine the accuracy of the ANPC's arguments.

In certain situations, the law provides for a shift in the burden of proof from the consumer alleging a breach of his rights to the undertaking alleged to have infringed them. Thus, Articles 5 and 6 (10) of the Romanian Government's Emergency Ordinance no. 34/2014[53] provides that, upon claim by the consumer, the undertaking is the one that needs to prove that it has fulfilled the obligations to provide the required information to the consumer. The fact that the undertaking is the one that needs to also prove that it has obtained the consumer's consent for the conclusion of the contract, for a possible delay in the execution of the contract, or for the use of one of the distance communication methods provided by law, is provided in Article 24 (1) of Romanian Government's Ordinance no. 85/2004.[54]

Furthermore, Article11 (1) of Law no. 363/2007[55] provides that undertakings are required to provide proof of the correctness of the relevant commercial practice and can be ordered, either by the ANPC or the court, to furnish written evidence in support of such.

[52]Government Ordinance no. 21 of 21 August 1992 concerning consumer protection, M. Of. no. 212 of 28 August 1992.

[53]Government Emergency Ordinance no. 34 of 4 June 2014 concerning consumer rights in contracts concluded with professionals and for the modification and amendment of certain statutory acts, M. Of. No. 427 of 11 June 2014.

[54]Government Ordinance no. 85 of 19 August 2004 concerning consumer protection in the conclusion and performance of distance contracts regarding financial services, M. Of. no. 796 of 27 August 2004.

[55]Law no. 363 of 21 December 2007 concerning the combating of unfair commercial practices and the harmonization of rules with consumer protection European law, M. Of. no. 899 of 28 December 2007.

We believe that the current attribution of the burden of proof is appropriate, given the need to insure both a higher protection for consumers, which, as indicated by the Romanian Constitutional Court,[56] is an objective for the legislature, and a correct transposition of EU law.

However, we also make note of a case[57] where the consumer had argued that repairs to the product needed to fall within the guarantee offered by the seller, while the seller had argued that the guarantee did not apply because the consumer was in breach of the contractual terms of such on account of him having tampered with the product, not having used the proper fuel, and not having used the product according to instructions. The court denied the consumer's claim holding that the consumer had not proven that he had not tampered with the product, had used the proper fuel, and had used the product according to instructions. We believe that the court was wrong in issuing this decision as no one can be requested to prove a negative, in this case, that he did not infringe on the contractual terms of the guarantee.

### 22.6.2 Right to Repair and Post-sale Services

The Romanian Designs Law has not transposed the optional provision in Directive 98/71[58] concerning the exclusion from the scope of protection as designs of the use of parts of a complex product in the process to repair the complex product, for the purpose of restoring its original aspect. This provision could have been transposed solely where the market for spare parts was liberalized, which has not happened in Romania.

The Romanian Competition Council's Report on the market for spare parts,[59] which was issued by the competition authority in 2011 following a sector inquiry, proposed that the law be amended and the protection for must-match designs and models be eliminated. Until now, no such measure was taken by the legislative.

The Romanian Government's Decision no. 1132/2008,[60] which also transposes Directive 2006/66,[61] provides that manufacturers of electrical or electronic products

[56]Romanian Constitutional Court, Decision no. 1153 of 28 September 2010, M. Of., no. 753/11 November 2010.

[57]Campina County Court, decision no. 2690 of 26 September 2012.

[58]Directive 1998/71 of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs, OJ 1998 L 289, p. 28.

[59]Competition Council's Report on the market for spare parts for automobiles, 2011, http://www.consiliulconcurentei.ro/uploads/docs/items/bucket7/id7387/raport_final.pdf. Accessed 8 October 2018.

[60]Government Decision no. 1132 of 18 September 2008 concerning the regime for batteries and accumulators and waste batteries and accumulators, M. Of. no. 667 of 25 September 2008.

[61]Directive 2006/66 of the European Parliament and of the Council of 6 September 2006 on batteries and accumulators and waste batteries and accumulators and repealing Directive 91/157, OJ 2006 L 266, p. 1.

powered, in whole or in part, by batteries need to ensure that the waste batteries are easily removable by users or by professionals acting independently from the manufacturer. While there are no product-specific rules, the decision provides a limitation for this obligation where the continuous supply of power is necessary for safety, performance, medical, or data integrity reasons.

Assuming that any undertaking marketing the products protected by intellectual property rights needs to be himself a holder of the intellectual property rights, most likely a licensee, the general provisions on guarantees would apply. Thus, as provided by Romanian Law no. 449/2003 on sale of products and associated guarantees,[62] the buyer of a product can have the seller either repair or replace the product or refund a part of the price or rescind the contract. Beyond the expiry of the guarantee, Article 12 (1) of the Romanian Government's Ordinance no. 21/1992[63] provides that the seller would still need to repair or replace products or services that can't be used for the purpose for which they were created due to hidden vices.

We believe that, on a normal balancing of interests, a court would consider abusive a refusal to provide necessary repairs, even by means of software updates, which would render the purchased product/service unusable for the purpose for which it was created. This conclusion could also be analyzed under the framework for an abuse of a dominant position.

The obligation, as provided by applicable law, would not be subject to contractual limitations, an express provision indicating that any such limitation made before the consumer would be aware of the deficiency would be void, being included in Article 22 (1) of Romanian Law no. 449/2003.[64]

The guarantee by operation of law applies for a period of 2 years, or the estimated life of the product where such is less than 2 years, while the commercial guarantee can provide for a time limit, which is not to be less than 1 year and should be only for used products.

Related to this, we must also indicate the fact that there is case law indicating that Romanian courts have established that guarantees and liability of the undertaking that marketed the product are limited where there have been unauthorized third-party repairs on the product.[65] Both the ANPC and the courts have hinted that the same conclusion would be reached in case of "breaking the seals" of the product.[66]

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[62] Law no. 449 of 12 November 2003 on sale of products and associated guarantees, M. Of. no. 812 of 18 November 2003.

[63] Government Ordinance no. 21 of 21 August 1992 concerning consumer protection, M. Of. no. 212 of 28 August 1992.

[64] Law no. 449 of 12 November 2003 on sale of products and associated guarantees, M. Of. no. 812 of 18 November 2003.

[65] Sibiu District Court, decision no. 2921 of 19 May 2014; Bistrita-Nasaud County Court, decision no. 464 of 18 June 2015.

[66] Sibiu District Court, decision no. 2921 of 19 May 2014.

### 22.6.3 Relevance of Consumers' Interests for the Protection of Intellectual Property Rights

#### 22.6.3.1 Constitutional Relevance of Consumers' Interests

While there is no direct protection of consumer rights by means of the Romanian Constitution, they have been frequently invoked by the Romanian Constitutional Court in its decisions confirming the constitutionality of statutory provisions aimed at protecting consumers. Thus, the court has held in numerous decisions that legislative action aimed at protecting consumers against abusive contracts of adhesion is made in accordance with constitutional requirements, given the inequality of bargaining positions between professionals and consumers at the conclusion of a contract,[67] and so is legislative action taken against contracts for bank credit where performance of the contract as concluded would lead the consumer to bankruptcy.[68]

As there are no express consumer rights provided in the Romanian Constitution, consumers can invoke their rights, based on statutory provisions, against any entity, public or private, in respect of which they can be qualified as consumers.

#### 22.6.3.2 Consumers' Interests in the Courts

Regular courts have also considered consumers' interests when balancing interests, exercising discretion, or construing abstract legal terms.

The High Court has refused to annul a decision by the Romanian Energy Regulation Agency on account of that decision having been issued to protect the consumers' interests.[69] Consumers' interests were also considered when balancing the interests of consumers and professionals in claims for the annulment of abusive contractual provisions.[70]

Romanian courts are, however, reluctant to take consumers' interests into account where the case does not concern the application of legal provisions not specifically dealing with consumers' interests. Generally, the courts are bound by the claim brought before them and the protection of the interests of the parties to that claim; this is why consumers' interests as such are not generally taken into account when ruling on claims not dealing with issues of consumer protection.

An exception to this comes from claims pertaining to infringements of competition law where the Romanian Competition authority has hinted at possible negative effects on consumers, some of which were also endorsed by the courts when validating the decisions of the Competition Council upon challenge by the concerned undertakings and from claims in trade mark law, where the law itself

[67] For example, Romanian Constitutional Court, decision no. 1153 of 28 September 2010, M. Of., no. 753/11.11.2010.

[68] For example, Romanian Constitutional Court, decision no. 371 of 31 May 2018, M. Of., no. 733/24.08.2018.

[69] High Court, Administrative Division, decision no. 4148 of 16 October 2012.

[70] For example, Caracal District Court, Civil division, decision no. 1431 of 3 April 2012.

indicates that use of a sign should not create a likelihood of confusion in the mind of the relevant consumers.

The Bucharest Court of Appeals has held,[71] citing the CJEU's decision in *Viking Gas*,[72] that a brand owner can't enforce his rights in a trade mark against the refill of the product by an unauthorized third party where there is no consumer confusion as to the source of the refilled product or the lack of any association between the brand owner and the third party refilling the product. Moreover, the court reiterated that the brand owner's interest to further profit from the use of the trade mark needs to be balanced out against the consumer's right to fully enjoy his ownership of the product and the general interest of a competitive, open market.

As indicated above, the main consumer interest had in mind when balancing the interests of consumers and brand owners refers to ensuring there is no confusion at the moment of purchase. Deriving from the classic concept of valid consent to contract, this aim is correlated with the basic function of trade marks to indicate commercial origin beyond any likelihood of confusion in the mind of the relevant public. This aim is also realized by means of specific obligations to inform consumers provided for, in general terms, in the Romanian Government's Ordinance no. 21/1992[73] and, in more specific terms, in other statutory acts like Romanian Government's Ordinance no. 34/2014,[74] Romanian Government's Ordinance no. 85/2004,[75] and Law no. 363/2007.[76]

There is no general priority of the various interests put in balance, but the court will give priority to issues pertaining to general order before the private interests of the parties. Beyond this, Romanian courts tend to give more weight to expressly provided for rights over less clearly expressed interests.

Overall, there is a case-by-case approach. Even if exhaustion of rights is considered to be a provision pertaining to public order, which means that it can't be contracted against, the High Court held[77] in one case that removing the bar codes from labels of luxury products is an act justifying the brand owner's intervention to block the marketing of branded products previously placed on the EEA market by the brand owner or with his consent. On the other hand, the High Court has refused,

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[71] Bucharest Court of Appeals, 9th Civil division, decision no. 100 of 16 May 2013.

[72] CJEU, case C-46/10, *Viking Gas A/S v Kosan Gas A/S*, ECLI:EU:C:2011:485.

[73] Government Ordinance no. 21 of 21 August 1992 concerning consumer protection, M. Of. no. 212 of 28 August 1992.

[74] Government Emergency Ordinance no. 34 of 4 June 2014 concerning consumer rights in contracts concluded with professionals and for the modification and amendment of certain statutory acts, M. Of. No. 427 of 11 June 2014.

[75] Government Ordinance no. 85 of 19 August 2004 concerning consumer protection in the conclusion and performance of distance contracts regarding financial services, M. Of. no. 796 of 27 August 2004.

[76] Law no. 363 of 21 December 2007 concerning the combating of unfair commercial practices and the harmonization of rules with consumer protection European law, M. Of. no. 899 of 28 December 2007.

[77] High Court, 1st Civil Division, decision no. 1794 of 10 June 2014.

in a decision issued in parallel to the aforementioned one,[78] to in any way limit the effect of exhaustion of rights with respect to original spare parts that were marketed in Turkey and imported in parallel in Romania, even if this was recognized to harm downstream competition.

#### 22.6.3.3 Consumers' Interests in Competition Law

In the field of competition law, the Romanian competition authority and courts reviewing its decisions have also mentioned consumers' interests in their analyses.

The Romanian Competition authority makes mention of consumers' interests in many of its decisions. However, we do not believe that consumers' interests are of much relevance when exercising discretion but rather represent a general justification for the enforcement of competition rules in Romania.

Thus, in a recent decision,[79] the Competition Council claimed that an effect of the tampering with the price/quality ratio causes distribution costs to be passed on along the chain of distribution up to the final customer who will in the end bear the price hike generated by the cartel's activity.

The fact that ultimately consumers pay higher prices than they would wave in the absence of collusion is also indicated in other decisions by the Romanian Competition authority.[80] The fact that consumers bear the cost of procurement tainted by anticompetitive acts has also been expressed by the Competition Council.[81] The existence of captive consumers, in the case of procurements for the utilities sector, was considered as emphasizing the negative effects of the anticompetitive practice.[82]

Unfortunately, the Romanian Competition Council makes limited use of the more economic approach, preferring to pursue "by object" infringements of competition

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[78]High Court, 1st Civil Division, decision no. 2097 of 1 July 2014.

[79]Romanian Competition Council, Decision no. 77 of 20 December 2017 (Energobit SA, Elster Rometrics SRL, LANDIS+GYR AG, Ecro SRL, Electrica SA, Electromagnetica SA), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket13/id13228/decizie_77_20122017_publicare_site.pdf. Accessed 8 October 2018.

[80]For example, Romanian Competition Council, Decision no. 73 of 15 December 2017 (New Films INTERNATIONAL Romania SRL, Transilvania Film SRL, RO IMAGE 2000 SRL, Parada Film SRL, ACO SRL, Ecran Cinema Management SRL, Light Cinema Bucureşti SRL, Quality Cinema Bucureşti SRL, Chicago Tour SRL, Shoppingcity Oradea SRL), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket13/id13299/decizie_nr_73-15122018-cinema_site.pdf. Accessed 8 October 2018.

[81]For example, Romanian Competition Council, Decision no. 12 of 3 March 2008 (Fresenius Medical Care SRL, Alsifcom Intermed SRL, Opremi Medfarm SRL, Ministry of Public Health), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket2/id2082/decizii_2008_12.pdf; Romanian Competition Council, Decision no. 66 of 15 December 2015 (Sole Mizo Romania SRL, Agro-Pan-Star SRL), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket10/id10919/decizie_sole_mizo_si_agro-pan-star.pdf. Accessed 8 October 2018.

[82]Romanian Competition Council, Decision no. 71 of 14 November 2012 (Condmag SA, Inspet SA), http://www.consiliulconcurentei.ro/uploads/docs/items/bucket8/id8224/decizie_butimanu_brazi_publicare.pdf. Accessed 8 October 2018.

law and, as a consequence, not make a sufficiently detailed analysis of the presumed effects of the anticompetitive practice.

We believe that the more economic approach is, overall, sufficient to provide an ample protection to consumers' interests by balancing their direct, indirect, short-term and long-term interests with those of the undertakings providing them with products and services.

We consider the current balance of interests to be performed in Romania in a predominantly functionalist manner, with, overall, more deference to hierarchies of interests organized by law rather than measured by the quality of the holder of the interest, i.e. consumer or intellectual property holder.

We believe that, at least for the moment, this functionalist approach should be pursued in order to create more security in its application. As there is currently no evident imbalance, the more stability in its application, the better.

#### 22.6.3.4 Protection of Intellectual Property Rights and Consumer Welfare/Consumer Surplus

The effects of intellectual property rights enforcement on consumer welfare is overall a highly contentious point as brand owners typically emphasize that active enforcement of their rights helps consumers not to be confused and be guaranteed a certain level of quality of the products and services and thus benefit from a higher level of consumer protection. Competitors emphasize that a high level of enforcement causes a reduction of competition and the maintaining of high prices, which all harm consumers.

Romanian courts have tended to allow intellectual property right holders a wide range of enforcement of their rights, usually giving them preference on account of the law expressly recognizing their rights and enforcement avenues. This was not explicitly done at the benefit of consumers, their interests not being, as mentioned above, considered as directly concerned by intellectual property rights enforcement proceedings.

Currently, there is no ongoing effort to better understand the effects of this approach or change the balance of interests.

# Spain

# 23

Anna María Ruiz Martín

## 23.1 Intellectual Property Rights Protection in Spain

### 23.1.1 Overview of the General Aspects

Several laws form the Spanish legal framework of intellectual property protection. Thus, the Spanish legal framework of IP rights protection is totally scattered, and there is no special law as it were a 'one size fits all'. Likewise, it should be borne in mind that the Spanish legal framework is also influenced and affected by the international and European laws of IP rights protection (taking into account the primacy of the European Union Law).[1]

The Spanish regulatory framework of IP rights clearly distinguishes among industrial property and intellectual property, as many continental law countries do according to our legal heritage. In a nutshell, Industrial Property Law in Spain encompasses Patent Law,[2] Trademark Law, Industrial Design Law,[3] and other laws of related IP rights such as geographical indications, designations of origin,[4] and so on and so forth.[5] On the other side, IP is protected by the Spanish Intellectual

[1]Article 96.1 of the Spanish Constitution and Article 21.1 of the Spanish Organic Law 6/1985 of 1 July, on the Judiciary (as amended in 2015).

[2]Spanish Act 24/2015, 24 July 2015, on Patents (including in its substantive scope protection of the Utility Models).

[3]Spanish Act 20/2003, 7 July 2003, on Legal Protection of Industrial Designs.

[4]Spanish Act 16/2015, 12 May 2015, on protected Designations of Origin and Geographical Indications of Supra-Autonomic Territory.

[5]Such as the protection of Topographies of Semiconductor Products and Plant Varieties.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_23

Property Law (hereinafter SLIP),[6] which encompasses copyright and other related rights of intellectual property (including the protection of software and other neighbouring rights).

Every Spanish IP Law has established in their Preliminary the valid interest of the IP rights such as the protection of public perception, quality and values of these IP rights for the competition process, the consumers and the I+D in Spain, being a condition for registering the IP rights so as to protect the IP rights holders. Therefore, the wide array of protected interests (including public interest) of the IP rights holders, and their exhaustive lists, are legally defined according to the law in which the IP right is protected.

In addition to the abovementioned, Spanish competition law, encompassing antitrust and unfair competition law[7] into two separated bodies of law,[8] and consumers' protection laws endow with protection for the IP holders, i.e., in a vicarious manner, as it will be explained in the contribution.

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[6]Royal Decree-Law 2/2018 of 13 April 2018, on Amendments to the Consolidated Text of the Law on Intellectual Property, approved by Royal Legislative Decree 1/1996 of 12 April 1996 and incorporating (implementing) into Spanish Law Directive 2014/26 of the European Parliament and of the Council of 26 February 2014, and Directive 2017/1564 of the European Parliament and of the Council of 13 September 2017; available in English at http://www.wipo.int/wipolex/en/details.jsp?id=17906. Accessed 24 October 2018. Further details on Spanish Legal Framework of Intellectual Property laws are available at http://www.wipo.int/wipolex/en/profile.jsp?code=ES. Accessed 24 October 2018.

[7]So far, in Spain, Trade Secrets protection as a *sui generis* IP Right, is protected under Spanish Unfair Competition Act (hereinafter, SUCA) until the enactment of the Special Act on Trade Secrets Protection (see below); Act 3/1991 of 10 January 1991, on Unfair Competition, *Official State Gazette,* 1991 (10).

[8]I. Antón Suarez, The Ten Commandaments of Parallel Trade. Los Diez Mandamientos del Comercio Paralelo, Cuadernos de Derecho Transnacional 2016 (8), pp. 55–76, available at https://e-revistas.uc3m.es/index.php/CDT/article/view/3253/1919. Accessed 23 October 2018; id. La Distribución y el Comercio Paralelo en la Unión Europea, 1st. ed, La Ley 2015; Judgment of the Commercial Court of Barcelona 84/2018, of 9 April 2018, case Schweppes S.A. vs. RED PARALELA S.L. & CARBONIQUES MONTANER S.L. (it is available only in Spanish at http://redparalela.eu/wp-content/uploads/2018/04/SENTENCIA-SCHWEPPES-vs-RED-PARALELA-.pdf. Accessed 22 October 2018. This judgment led in an interesting preliminary question before the European Court of Justice concerning the exclusive right of trademarks in distribution: CJEU, case C-291/16, *Scheppes v Red Paralela SL and Red Paralela BCN SL*, ECLI: EU:C:2017:99.

### 23.1.2 Protected Interests of the Holders of Trademarks in Spain: Domestic and International Framework

#### 23.1.2.1 List of Interests Protected for Trademarks Holders Under the STA

Spanish Trademarks Act (hereinafter STA)[9] contains the list of interests and categories of interests recognized for the holders/owners.[10] Spanish regulation is complemented by the European *acquis communautaire* of trademark[11] and international treaties such as the Paris Convention for the Protection of Industrial Property (hereinafter PC), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Trade Mark Law Treaty (TLT-WIPO), Madrid Agreement and Its Protocol on the International Registration of Marks; Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks; and the Nice Agreement Concerning the International Classification of Products and Services for Registration of Trademarks.[12]

The list of protected interests and exclusive rights for trademark holders—including moral and economic rights—can be found in Article 34 STA. Hence, its paragraph 1 set forth the right to exclusive use of the trademark and brand name in relation to the goods and services in respect of which the trademark or brand name is registered (positive element) provided that registration was duly fulfilled and is valid (*ius utendi*), paragraph 2 represents the right to prohibit and exclude the use of the trademark if the trademark holder did not overtly give his consent (*ius prohibendi*), paragraph 3 (e) represents the exclusive right to use the trademark on interconnected communication networks and as a domain name, paragraph 4 represents the right to prohibit in distribution networks under special circumstances, and paragraph 5 is

[9]Spanish Act 17/2001, of December 7, on Trademarks (Consolidated text including the Amendments made by the Spanish Act 20/203 of July 7, on Legal Protection of Industrial Designs), *Official State Gazzete,* 2001 (294), amended in 2011 by Law 2/2011, of March 4, available in English here: http://www.wipo.int/wipolex/es/text.jsp?file_id=126736. Accessed 24 October 2018. Royal Decree 867/2002, of July 12 2002, approving the implementing regulation on Trademarks Law.

[10]This list is not exhaustive. Spanish lawmaker stroke down the exhaustive list when STA was amended in 2001, see M. Broseta Pont and F. Martínez Sanz, Manual de Derecho Mercantil, 24th ed., Tecnos 2017, at p. 266.

[11]Directive 2008/95 on Trademarks Directive implemented by STA above mentioned); Directive 2015/2436 on the harmonising trademarks law in the EU (not implemented yet, its entry into force is expected 14 January 2019); Regulation 207/2009 on the Community Trade Mark (Community Trade Mark Regulation) and its amendment by Regulation 2015/2424 on the Community Trademark and fees payable to the Office for the Harmonization in the Internal Market (Trade Marks and Designs); see, A. García Vidal, La reforma del Derecho de marcas (I): principales novedades introducidas por la Directiva 2015/2436, Análisis Gómez Acebo & Pombo 2016, pp. 1–8.

[12]*Inter alia,* I.M. Davies, European Trade Mark Litigation Handbook, Sweet & Maxwell 1997, at p. 499; C. Fernández-Novoa, Tratado sobre Derecho de marcas, 2nd ed., Marcial Pons 2004; H. Baylós Corroza, Tratado de Derecho industrial, 3rd ed., Marcial Pons 2009.

related to the protection of non-registered “well known” or “notorious” trademarks (following the requirements set out by Article 6 and Article 6 *bis* of the PC).

#### 23.1.2.2 Requirements for Registering the Trademark Under the STA

The STA provides the requirements for registering the trademark/brand (commercial names and signs) in its Title III, which is divided into three chapters, including Registration Application, Registration Procedure, and General Procedural Provisions.

Trademarks in Spain are registered and managed by the Spanish Patent and Trademark Office (SPTO)[13] and European Trademarks before the European Union Intellectual Property Office (EUIPO) located in Alicante (Spain). Non-registered trademarks also has protection but under certain conditions (usually only for well-known trademarks).

Article 4 STA provides the requirements to register the trademark in Spain. The wording of this provision provides a definition of “trademarks” and establishes that a trademark will be registered if it is capable of being represented graphically and of distinguishing in the market the goods or services of one undertaking from those of others.

Thus, objects of copyright, designs, or rights related to the name and trademarks may also protect images of people if they meet the requirements given by Article 4 paragraph 1. However, there is no special condition established with regard to valid interest. The only requirement is that the trademark must be put in use in relation to the trade of goods and services within the first five years of registration. Otherwise, if there is no use or promotion of the trademark on the market, it could be cancelled for “non-use” (Articles 55 to 58 of the STA).[14] Even though the holder is paying the renewal fees (considering the public interests included in the Trademark Law as valuable assets for the trade).

As a matter of fact, the STA bestows a special consideration, which is inherent in the function of trademarks as a way to promote goods and services in the marketplace so as to protect consumers from misleading and dilution in trademarks and guarantee their quality and safety.[15] In this sense, it is clear that the STA is acknowledging the rights and the guarantees that the consumers ought to have when it provided for the differentiation of notorious trademarks and their relevance to the market, the process of competition and consumption, as well as the protection

[13]Webpage of the SPTO is available in English: https://www.oepm.es/en/index.html. Accessed 20 October 2018.

[14]Including in itself, the expiration and treatment of the trademarks that is different of cancellation for non-use.

[15]A. Cerviño Casado, Derecho de marcas y protección de los consumidores: el tratamiento del error del consumidor, Tecnos 2000; nevertheless, sometimes both interests (of the consumers and of the right holders as competitors in the market) can collide and prevail over each other, depending on the case. Eventually, Spanish case law has varied according the interests at stake, up to a point, of creating unbalances between the aims of the laws and the interests protected by each law (as it is considered by Spanish Trademark and Consumers Protection laws).

of the marks under SUCA as general law in certain cases of violation, such as imitation or exploitation of alien reputation.[16]

## 23.2 Spanish Legal Framework of IP Right Protection Limitations

### 23.2.1 Exhaustion Doctrine in Spanish IP Protection System: General Aspects

In a broad sense, it can be said that the legal landscape of Spanish IP Protection has three levels of exhaustion (i.e., Spanish IP landscape recognizes three levels of exhaustion), and whether one or another is applied, it depends on the IP Right at stake. Thus, the analysis of the IP Right will be required in order to differentiate which kind of exhaustion is applied taking into account these three levels (if National-domestic, European-regional or International exhaustion).[17]

The three levels of exhaustion that may occur under the Spanish legal framework are as follows:

(i) National exhaustion: it occurs when the good is distributed in the domestic market and national territory (in this case, this national territory is Spain).
(ii) Regional exhaustion: it is related to the "First Sales Theory" in commercial distribution networks and free movements of goods and services. It occurs when the good is distributed in the internal market (usually for trademarks).
(iii) International exhaustion: it occurs when the good is distributed in a foreign market or the market of a third state where there is a wide leeway for parallel trade and the trademark owners cannot control it or prohibit it.

### 23.2.2 Exhaustion Doctrine Under the STA: Geographical, Temporal, and Substantive Scope

One of the limitations of the legal protection of trademarks is the exhaustion of the trademark rights according to what is established under the STA, such as European and international rules currently implemented by Spain. The threefold scope of the STA is structured as follows:

(i) Temporal scope of protection: trademark protection starts from the date of publication of the grant, and its temporal scope of protection is set for

[16]There is relevant seminal case law regarding this aspect of the Spanish Courts. See for instance, Judgment of the Spanish Supreme Court, Civil Division, 504/2017, of 15 September 2017, case "Museo del Turrón".
[17]See next Sect. 23.2.2.

10 years. However, it can be renewed for a period of 10 years (Articles 31 and 32 of the STA).

(ii) Geographical scope: trademark holders can apply in all parts or some parts of the Spanish territory, as provided by the STA. However, STA includes also the "European registration system" under Article 84 *et seq*. and international registration according to what is established under the Madrid Protocol in Article 79 *et seq*.

(iii) Substantive scope: Article 1 of the STA recognizes trademarks, brands, or trade names as distinctive signs in Spain. Article 4 provides for a wide definition of what is considered as trademark, in order to determine its exhaustion when it is going to be marketed.

Additionally, Article 36 (exhaustion) and Article 37 (limitations) set out the specific requirements for the legal limitations in the use of trademarks or brands.

"The STA follows the European doctrine of exhaustion on trademarks as the only one at hand, taking into account there is no international exhaustion standard yet". As it is well known, the lack of harmonization of exhaustion on trademarks in the international arena departs from what was established in the TRIPS. Even if there is advisable in creating international standard of exhaustion on trademarks—from our point of view—due to the "exhaustion doctrine" is considered as an useful mechanism to protect the balance of interests between the rights holder, the consumers' interests and the process of free and fair competition, it is true that the IP Rights protection is still enshrined under the "principle of territoriality".[18] All in all, it must be highlighted that the "Exhaustion doctrine" pursues and it is a mechanism to protect and to underpin the balance of interests between the rights holders, consumers' rights and free competition creating legal certainty in trade and commerce.[19]

The regional exhaustion of the trademark right under STA starts with the marketing of the goods in the European Economic Area (EEE) and the consent of the trademark holder given to third parties to do so. It requires, according to the STA, an

[18] M. D. Colmenero García, El agotamiento del Derecho de marca. Problemática en torno al ámbito territorial del mismo: ¿Agotamiento comunitario? o ¿agotamiento internacional?, available at: http://www.fundacionmarianoruizfunes.com/ver_articulo.php?articulo=126. Accessed 22 October 2018. I. Antón Suarez, The Ten Commandaments of Parallel Trade. Los Diez Mandamientos del Comercio Paralelo, Cuadernos de Derecho Transnacional 2016 (8), pp. 55–76, available at https://e-revistas.uc3m.es/index.php/CDT/article/view/3253/1919, at p. 62; F. Carbajo Cascón, La marca en los sistemas de distribución selectiva (el problema de las ventas paralelas), In E. Galán Corona and F. Carbajo Cascón, Derecho de marca y distrubución comercial (cords.), 1st ed., Universidad de Salamanca 2011, at pp. 153–213; C. Górriz López, Distribución Selectiva y Comercio Paralelo, Thomson Civitas 2007; A. García Vidal, El alcance territorial del agotamiento del derecho de marca en la reciente jurisprudencia del TJCE, Actas de Derecho Industrial 1999 (XX), pp. 567–592.

[19] M. D. Colmenero García, El agotamiento del Derecho de marca. Problemática en torno al ámbito territorial del mismo: ¿Agotamiento comunitario? o ¿agotamiento internacional?, available at: http://www.fundacionmarianoruizfunes.com/ver_articulo.php?articulo=126. Accessed 22 October 2018, at p. 52.

actual sale in the legal sense of the word.[20] Therefore, the elements for triggering regional exhaustion in the internal market under the STA are as follows: the consent of the right holder to market the goods by means of actual sales.

The burden of proof of trademark exhaustion, according to the STA and according to Spanish seminal case law, lies in the trademark holder. However, there can be a reversal of the burden of proof, in which case it will be on the part of the defendant to provide evidence of exhaustion and prove that he was an authorized party to market the products of the trademark holder.[21]

#### 23.2.2.1 Other Limitations Under the STA

Whilst the Article 5 STA provides a list of absolute prohibitions regarding what cannot be registered as a "sign"; the Article 6 STA provides, one is able to find the list of relative prohibitions of trademarks and trade names or grounds for refusal. There is a way to overcome an objection of relative refusal. It can be made it by argument, agreement and withdrawal of the opposition, by limiting the specification, applying for limitation of some kind or invalidating total o partially the earlier mark.[22]

### 23.2.3 Protection of the Trademarks in Distribution Networks and Parallel Trade Under the STA and SUCA

Parallel imports in Spain, as well as is established under the European competition law, are allowed under certain circumstances. This is due the fact that there is no specific prohibition under these legal systems (European and Spanish). As a consequence, trademark holders cannot prohibit the sale and use of their trademark rights

[20] A. Casado Ceviño, El Sistema Comunitario de Marcas: Norma, Jurisprudencia y Práctica, 1st. ed. E.D.Lex Nova 2000; C. Fernández Nóvoa, El Sistema Comunitario de Marcas, Montecorvo 1995; id. Manual de Propiedad Industrial, Marcial Pons 2009; A. Suñol Lucea, Agotamiento del derecho de marca y perjuicio a la reputación como motivo legítimo para impedir la reventa de productos que la portan: Comentario a la Sentencia del Tribunal Supremo de 22 de abril de 2016, Almacén de Derecho 2016, available at https://almacendederecho.org/limites-la-doctrina-del-agotamiento/. Accessed 22 October 2018. Regarding the exhaustion of trademarks in contracts of renting and leasing agreements; see, Judgement of the Spanish Supreme Court n°618/1997, of 4 July. All these IP rights can be subject of these agreements as movable property, provided that these IP rights remain affected by the exploitation use under the terms given by the covenants of these contracts.

[21] See for instance, Judgement of the Provincial Court of Madrid, n°172/2015 of 15 June, Civil Section; R. Ramírez Herrera, La distribución de la carga de la prueba en los procesos civiles sobre marca comunitaria en España. Notas conceptuales, available at http://www.uaipit.com/uploads/publicaciones/files/1301567645_La_Distribución_de_la_Carga_de_la_Prueba._Rodrigo_R._H.pdf. Accessed 23 October 2018.

[22] International Comparative Law Guides, *Spain Trademarks* 2018, available at https://iclg.com/practice-areas/trade-marks-laws-and-regulations/spain. Accessed 22 October 2018.

to restrict parallel trade for the sake of free movements of goods and services in the internal market and under certain circumstances.[23] For instance, the exhaustion of the trademark right constitutes an opposition on the part of the trademark holders so as to restrict parallel trade.[24] Protection against certain commercial practices of parallel trade, under the Spanish legal framework, is provided by the SUCA. Thus, official distributors such as trademark holders can file a lawsuit on the basis of SUCA (i.e., unfair competition remedies) if parallel trade may affect the distribution networks and third parties are not authorized to distribute or provide their products in other markets where there is no exhaustion yet.[25] These remedies under the SUCA are basically related to the infringements of IP rights, especially infringements against trademarks and brands, including deception, confusion, lookalikes, free riding, and tortious interference in contracts (inducing to breach a contract).[26]

In addition to the above, the Spanish Competition Act[27] has established the prohibition of vertical restrictions that it can be object of parallel trade. Therefore, there is also an administrative control carries out by the National Authority of Competition in Spain (CNMC) so as to protect certain distribution networks and to the IP holders against anticompetitive behaviours or unlawful restrictions in parallel trade.

#### 23.2.3.1 Trademark Rights in *On-* and *Offline* Distribution and Resales Under the STA: Licenses of Use and Licenses of Exploitation

Article 34 set out in its paragraph 4, as it was above explained, the right of the trademark holders to prohibit distributors and traders to use and exploit their registered trademarks without their consent. However, in Article 37 STA, there is an exception to this prohibition, that is, the trademark holder has determined in any

[23] Article 101 para 3 TFEU; In Spanish Competition Act (SCA) the Article 101 TFUE is established on Article 1 para 3; F. Carbajo Cascón, La marca en los sistemas de distribución selective (el problema de las ventas paralelas), In E. Galán Corona and F. Carbajo Cascón, Derecho de marca y distrubución comercial (cords.), 1st. ed., Universidad de Salamanca 2011 at p. 156.

[24] ECJ case C-355/96, *Silhoutte,* ECLI:EU:C:1998:374. Further details of these Articles in English are available at: http://www.wipo.int/edocs/lexdocs/laws/en/es/es080en.pdf. Accessed 22 October 2018.

[25] See, I. Antón Suarez, The Ten Commandaments of Parallel Trade. Los Diez Mandamientos del Comercio Paralelo, Cuadernos de Derecho Transnacional 2016 (8), at p. 61; on patents, namely pharmaceutical products, C. Otero García Castrillón, Importaciones paralelas, reimportaciones y agotamiento internacional de los Derecho de la patente: con especial referencia a las patentes farmacéuticas, Revista de Derecho Mercantil 2001 (242), pp. 2009–2036. As the Author stresses out in her contribution, the fight against the parallel trade is made it, in the first place by means of the exhaustion of the rights (regional or international) and, in the second place, by means of commercial technics under the shelter of the Competition law in general (such as vertical restrictions established under the SCA or SUCA remedies); A. García Vidal, El comercio paralelo de medicamentos, Cuadernos de Derecho Transnacional 2013 (5), pp. 315–334.

[26] Article 32 of the SUCA provides the remedies against these trademark infringements.

[27] Spanish Act 17/2007 of July 3, on the Protection of Competition, available at: http://www.wipo.int/wipolex/en/details.jsp?id=11864. Accessed 23 October 2018.

kind of contract the terms of use of the protected name or symbol in the context of on- and offline distribution and after-sales service.[28] If the third party (such as a provider or a distributor) is marketing and selling a product that includes the trademark of the holder, provided that such third party is acting in accordance with fair commercial practices in commerce and trade, then the trademark holder cannot prohibit the use of the trademark for offline and online distribution networks.[29] In this respect, in Spain the distribution system is protected in general. There is no differentiation in terms of conditions and protection—neither STA nor SUCA—in offline and online distribution systems and if these offline and online distributions must be selective or exclusive.[30] The Spanish legal framework does not only distinguish between distribution contracts; it also provides for a distinction between the licenses of use or exploitation of trademarks as an autonomous contractual entity in distribution contracts and as an essential element of the contract.[31] Furthermore, there is no special and mandatory requirement of consent of the trademark holder in distribution contracts between the provider and the distributor under the STA and the Trademarks Law. As a consequence, not every distribution contract requires in its covenants a trademark license. The only requirement is that the distributor must be an authorized distributor or a franchisee in order to prohibit the unfair use of the trademark or brand on the market by third parties, according to Article 34 paragraphs 2 and 3 STA.[32]

It must be borne in mind that, in these kind of distribution contracts, the delivery of the products carried out by the provider to a distributor without license of the provider, in order that the distributor sells his/her products in the market (re-sales), it is constitutive of exhaustion of the trademark of the provider according to the Article 36 STA. The selling of these products by the distributor is considered as the introduction of the product in the market, even if the distributor has no license.[33]

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[28] With regards to the regulation of after sales service (servicio postventa), see Sect. 23.2.4.2.

[29] Fair commercial practices must be understood as it is established under Article 10 *bis* PC in connection with what is also established under Article 1.2 PC.

[30] See for instance, Judgement of the Spanish Supreme Court 1669/2016, Civil Section, of 22 April 2016 [ECLI: ES:TS:2016:1669], case *L'Oreal Spain vs*. otros; E. Galán Corona and F. Carbajo Cascón, Derecho de marca y distrubución comercial (cords.), 1st. ed., Universidad de Salamanca 2011.

[31] Article 48 STA; P. Martín Aresti, La legitimación del distribuidor para el uso del signo distintivo del proveedor: sobre la existencia de una licencia de marca en los contratos de distribución comercial, In: E. Galán Corona and F. Carbajo Cascón (cords.), Derecho de marca y distrubución comercial, 1st. ed., Universidad de Salamanca 2011, pp. 17–39, p. 20.

[32] See above, P. Martín Aresti, La legitimación del distribuidor para el uso del signo distintivo del proveedor: sobre la existencia de una licencia de marca en los contratos de distribución comercial. In: E. Galán Corona and F. Carbajo Cascón (cords.), Derecho de marca y distrubución comercial, 1ªed., Universidad de Salamanca 2011 at p. 21.

[33] See above, P. Martín Aresti, La legitimación del distribuidor para el uso del signo distintivo del proveedor: sobre la existencia de una licencia de marca en los contratos de distribución comercial. In: E. Galán Corona and F. Carbajo Cascón (cords.), Derecho de marca y distrubución comercial, 1ªed., Universidad de Salamanca 2011, at p. 24; C. Fernández Fernández, Los motivos legítimos

Therefore, trademark holders can only prohibit the commercialization and marketing of their trademarks to third parties in the following two cases: when the distributor alters or modifies the product (Article 36.2 STA) and when the distributor can damage the goodwill of the trademark according to Spanish case law on this matter. In the second case, this damage will be assessed case by case in order to determine whether it was performed or not by the distributors.[34]

#### 23.2.3.2 Digital Goods and Digital Distribution: "First Sales Theory" and "First Implied License Theory" Under the Spanish Legal Framework: Exhaustion Treatment and Specific Aspects

Digital goods are regulated in the Spanish legal system following what is set out under the European provisions and the doctrines of the EUCJ. There is no specific Spanish regulation on digital goods as *lex specialis*; although, it is possible apply to invoke protection to these goods: in a general basis, the provisions of the SIPA devoted to "digital goods"; and, for/in certain protection, the provisions of sectorial regulations. For instance, Article 19 of SIPA, a special provision devoted to digital goods, establishes the protection, as well as the exhaustion, of digital goods, including smart products and software "as a service" in distribution contracts (first sale theory).[35]

Even though, Article 19 of SIPA set outs the condition that these products must be tied to a physical medium as a DVD or CD ("soporte tangible" in Spanish),[36] namely in distribution contracts because in these contracts, the incorporation in physical mediums is a special requirement in order to be considered distribution acts *in strictu senso* or licenses of use or exploitation. Otherwise, if these kinds of products cannot be attached in a physical medium as a requirement to protect them against the unfair and anticompetitive use, there is no consideration of digital distribution under Spanish law, being a mere act of communication to the public

que impiden el agotamiento de las marcas Comares 2005; C. I. Cordero Álvarez, El agotamiento de los Derechos de propiedad intelectual de patentes y marcas en materia de salud pública a la luz de la OMC y la UE: especial referencia a la jurisprudencia del TJCE sobre el envasado, SABERES, Revista de Estudios jurídicos, económicos y sociales 2006, (4), available at: https://eprints.ucm.es/33352/1/SABDER06_005.pdf. Accessed 6 November 2018.

[34]J. Vázquez Salleras, ¿Puede un distribuidor no autorizado vender on line los productos de mi marca?, Lawyerpress News Blog 2017, available at http://lawyerpress.com/2017/07/24/puede-un-distribuidor-no-autorizado-vender-on-line-los-productos-de-mi-marca/. Accessed 22 October 2018.

[35]See Article 19 of SLIP (as amended by Directive 2001/29 and 2009/24); J.A. Castilla Padilla, El contrato de suministro de contenidos digitales y los contratos de desarrollo de software y creación web en el derecho de consumidores. De la propuesta CESL y la Directiva 2011/83/UE a la propuesta de la Directiva 634/2015, de 9 de diciembre, CESCO Derecho de Consumo (17) 2016, pp. 1–17; F. Carbajo Cascón, La propiedad intelectual en la sociedad de información, Centro internacional de tecnologías avanzadas. Fundación Germán Sánchez Ruipérez 2017, pp. 1–79, at p. 19, available at http://bibliotecadigital.jcyl.es/fr/catalogo_imagenes/grupo.cmd?path=10148280. Accessed 22 October 2018.

[36]Under Article 96 paragraph 1 of the SIPA one can find a definition of what is considered as software in Spanish jurisdiction.

under Article 20 of SIPA[37] and according to Directives 2001/29 and 2009/24. In these cases, there is no exhaustion and there is neither consent of the right holder nor licenses affecting to these software products or services in downstream markets. Such measures are aimed to prevent the shortcomings against the exhaustion of the IP rights in the digital commerce and context, taking into account the loopholes that are still without regulation on these matters.[38]

In the downstream market under the SIPA provisions, it is understood that storing digital copies on downloading websites and streaming websites are considered as digital reproduction of the goods and services and as public communication. For these sorts of acts the express consent of the IP right holder is required by law.[39]

### 23.2.4 Reverse Engineering, Geoblocking, E-commerce Aspects, and Protection of IP Rights in Spain

#### 23.2.4.1 Reverse Engineering and IP Right Holders: Spanish Civil and Penal Protection

In Spain, there are no special rules against decompilation, but this protection is covered by general protection. Since software programs and databases can be protected under SIPA, such as intellectual property rights, and SUCA, such as trade secrets[40] (know-how),[41] reverse engineering is permitted, provided that it complies with the conditions established in Article 100 paragraphs 5, 6, and

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[37]It was partly amended by Royal Decree Law 2/2018 of 13 April, to implement Directive 2014/26 and Directive 2017/1564, of 13 September; further details in Sect. 23.3 concerning the Spanish Legal Framework of Consumers protection and balance of interests.

[38]Judgement of the Spanish Supreme Court n°361/2016, Civil Section, of 1 June 2016, case *BSA*, with special mention to the "doctrine *Usedsoft* for second hand software" of the CJEU in the case C-128/11, *UsedSoft GmbH*, ECLI: EU:C:2012:407; and in the case C-406/10, *SAS,* ECLI:EU: C:2012:259; B. Pensado Vázquez, Estudio sobre la Jurisprudencia española y Europea de programas de ordenador, Universidad International de la Rioja 2015, available at https://reunir.unir.net/bitstream/handle/123456789/3533/PENSADO%20VAZQUEZ%2C%20BERNARDO.pdf?sequence=1. Accessed 22 October 2018.

[39]F. Carbajo Cascón, La propiedad intelectual en la sociedad de la información, Centro internacional de Tecnologías avanzada. Fundación German Sánchez Ruipérez 2017, available at: http://bibliotecadigital.jcyl.es/es/catalogo_imagenes/grupo.cmd?path=10148280, at p. 61.

[40]E. Morón Lema, El modelo de incriminación de los delitos contra el secreto de empresa en el Código Penal de 1995, available at: https://www.tdx.cat/bitstream/handle/10803/5066/eml4de5.pdf?sequence. Accessed 20 October 2018.

[41]On the contrary, under Spanish Patent Law, there is an overtly rejection of considering software programs as patents or utility models Article 4 paragraph 4 (a) and c. Spanish new Trade Secrets Law which will be enacted soon, it has established specific rules on reverse engineering when the acquisition of the trade secret is lawful and fair. However, until the proposed bill on this specific law of trade secrets unless it won't be totally passed by the Spanish parliament, protection against unlawful use of reverse engineering is provided by the laws above mentioned. Further details on this proposed bill of June 2018, it can be found only in Spain at http://www.congreso.es/public_oficiales/L12/CONG/BOCG/A/BOCG-12-A-23-1.PDF. Accessed 20 October 2018.

7 SIPA and in Article 13 of SUCA. These conditions allow the reproduction of codes and the translation of a software program if this program was acquired legally but not if it was unfairly acquired. Likewise, when the process of reverse engineering and decompilation are really essential to obtain the information required for the interoperability and analysis of independent or separated programs, this is considered as a lawful process. To the rest of assumptions or cases not contemplated in the above mentioned bodies of law, i.e., wherein there is no need to "decompile" in order to obtain this essential information, reverse engineering is not allowed in Spain. Even more, it is considered a felony under Spanish Criminal Code.

As a matter of fact, there is also a special protection for IP right holders under the Spanish Criminal Code against certain acts of reverse engineering, such as trade secrets. In this sense, Article 197 paragraph 3 bestows protection and penal remedies to the holders against the theft of their trade secrets[42] and Article 270 paragraph 3 bestows protection and penal remedies against serious infractions to the IP rights (industrial and intellectual property), to the consumers and to the Market in general.[43] These articles provide for a special protection against infringements related to the security of the program. These rules against reverse engineering are working effectively in practice because there is enough protection in several bodies of law and strict conditions in performing reverse engineering, as was above mentioned. Regardless the possible shortcomings IP right holders can encounter, such as the lack of protection of trade secrets in the contracts it could be solved by means of specific covenants, protecting the know-how against the unlawful reverse engineering.

#### 23.2.4.2 Geoblocking and IP Rights Under the Spanish Legal System

The Spanish geoblocking rules will change and will be affected with the implementation of the Geoblocking Regulation 2018/302, which comes into force on 3 December 2018, in order to build a real single digital market. So far, in Spain,

[42] Article 197 paragraph 3 of the Spanish Criminal Code reads as follows: "Whoever, by any means or procedure and in breach of the security measures established to prevent it, obtains unauthorised access to computer data or programs within a computer system or part thereof, or who remains within it against the will of whoever has the lawful right to exclude him, shall be punished with a prison sentence of six months to two years. When, pursuant to the terms established in Article 31 *bis*, a legal person is responsible for the offences included in this Article, the punishment of a line from six months to two years shall be imposed thereon. Pursuant to the rules established in Article 66 *bis*, the Judges and Courts of Law may also impose the penalties established in Sub-Sections b to g of Section 7 of Article 33" (English Version is available at: https://www.legislationline.org/documents/section/criminal-codes.); M. J. Dolz Lago, El marco legal de los delitos contra la propiedad intelectual e industrial en el Derecho español, europeo e internacional, ADCPC 2010 (LXIII), pp. 166–226.

[43] Article 270 paragraph 3 of the Spanish Criminal Code reads as follows: "Whoever manufactures, imports, puts in circulation or possesses any means specifically intended to facilitate unauthorised suppression or neutralisation of any technical device that has been used to protect computer programs or any of the other works, interpretation or performances under the terms foreseen in Section 1 of this Article shall also be punished with the same penalty".

there are limitations concerning geoblocking in online distribution of products. These limitations are established separately in SIPA (wherein copyright is protected) and in the provisions of the Spanish Act on the Information Society Services and Electronic Commerce[44] (so-called LSSI-CE). Notwithstanding that, the SIPA also established some limitations on websites access on behalf of the IP rights holders.

#### 23.2.4.3 E-commerce Platforms and Trademark Rights Holders: Limitations Against Providers

Special laws complemented the provisions of the LSSI-CE, such as the Spanish Act on Data Protection; the Spanish Law on Consumers and Users Protection; Act 29/2006, of 26 July, on Warranties and rational use of pharmaceutical products and medicines; Act 42/2010, of 30 December, on Sanitary control against tobacco use, and regulation on tobacco, sales, supply, advertising of tobacco products; and Act 13/2011, of 27 May, on Gambling Regulation. However, not all the provisions of these Acts are related to the protection of IP rights on e-commerce platforms.

Trademark holders are entitled to protect their brands on e-commerce platforms against the providers of these platforms by means of domain names, but this is not enough. Under Spanish legal system, it was previously established protection for the holders of trademarks against infractions committed on the Internet.[45] Apart from these civil remedies, there are criminal or penal remedies established in Article 270 *et seq.* against any infraction of IP rights even if it was committed online.

## 23.3 Spanish Legal Framework of Competition Law, IP Rights, and Consumer Protection: Balance of Interests

There is a steady tension between competition law and consumer and IP right law, which has not been overcome yet.[46] Nonetheless, Spanish laws on competition and IP rights somewhat recognized the link of all these bodies of law in their preliminaries.[47] This tension requires somewhat a differentiation between the functions of both bodies of law on the market in order to determine and clarify the

[44] Act 34/2002, of 11 July, which complies with EU Directive on E-Commerce and Directive on Copyright and related rights in the information society, related to Law n°15/1999, of Protection of Data of Personal Nature.

[45] See for instance, case Masaltos.com, Judgment of the Spanish Supreme Court n° 620/2016, Civil Section, of 26 February 2016, ECLI ES:TS:2016:620.

[46] On the imbalance between the interests of IP Rights holders and Competition Law, R. Bahamonte Delgado, El Derecho de la competencia y los Derechos de propiedad intelectual en la Unión Europea y España, AFDUC 2012 (16), pp. 477–497, available at: https://ruc.udc.es/dspace/bitstream/handle/2183/12013/AD_16_2012_art_23.pdf?sequence=1&isAllowed=y. Accessed 6 November 2018; F Carbajo Gascón and C. A. Uribe Piedrahita, Regulación "ex ante" o regulación "ex post": la difícil regulación entre el Derecho de competencia y los derechos de propiedad intelectual, Actas de Derecho Industrial (ADI), 33, 2012–2013, pp. 307–330.

[47] See Sect. 23.1.

scope of each body of law and to what degree each body of law has to be triggered.[48]

The relationship between these protected interests is notorious, insofar as most of the consumer laws in the Spanish legal framework encompass aspects related to the protection of competitors and IP right holders, such as the right to repair, product liability in breaking of seals, after-sales service and warranties, and so on so forth, which will be explained in the following sections.[49]

For instance, competitive limits are recognized in the contractual terms of software services, insofar as the drafting of these contracts are concerned. Due to the lack of a specific regulation concerning these kinds of contracts and covenants, contracts for software services must include the following terms: the limit of the use of the trademarks, brands, trade secrets, and copyright; confidentiality liability of the providers; license of use or license of exploitation; and so on and so forth.

### 23.3.1 Spanish Constitution and Consumer Protection

The protection of consumers and users' rights in Spain mainly stems from the Spanish Constitution and the European *acquis* of Consumer Law. Under the Spanish Constitution, consumers are directly protected under Article 51 and under this Article there is a wide protection that represents this complex system of protection.[50]

Spanish Consumers and Users Protection has also a scattered legal landscape, in the same vein that the IP Right Protection system such as was above mentioned and analysed. There are special protection and remedies available for consumers and users in public and private bodies of law (public and private enforcement to protect consumers are intertwined in a certain extent).[51] Besides, there is protection for

[48]F. Carbajo Gascón and C. A. Uribe Piedrahita, Regulación "ex ante" o regulación "ex post": la difícil regulación entre el Derecho de competencia y los derechos de propiedad intelectual, Actas de Derecho Industrial (ADI), 33, 2012–2013, pp. 307–330.

[49]See Sects. 23.3.2.1.1 and 23.3.2.1.2.

[50]Article 51 Spanish Constitution reads as follows: 1. The public authorities shall guarantee the protection of consumers and users and shall, by means of effective measures, safeguard their safety, health and legitimate financial interests; 2. The public authorities shall make means available to inform and educate consumers and users, shall foster their organizations, and shall provide hearings for such organizations on all matters affecting their members, under the terms to be established by law; 3. Within the framework of the provisions of the foregoing clauses, the law shall regulate domestic trade and the system of licensing commercial products; M.J. Reyes López, Manual de Derecho Privado de Consumo, La Ley 2009; N. Álvarez Lata and J. Peña López, Reclamaciones de consumo. Derecho de consumo desde la perspectiva del Consumidor. In: J. M. Busto Lago (coord,), Aranzadi 2010.

[51]Serves as a good example, the SUCA. Under the influence of the European Lawmaker was amended by the Directive of Unfair Commercial Practices 29/2005 in 2009. As it is well known, this Directive is part of the *Fitness Check* of European Consumer Law, and it was enacted only to protect *B2C* relationship or Consumers against unfair commercial practices in the internal market. Its consumer approach has had influence in the Spanish law against Unfair Competition like to the other European Consumer Protection systems.

consumers and users in self-regulation mechanisms that it must be taken into consideration.[52]

There is seminal case law of the Spanish Constitutional Court related to infractions against the fundamental rights enshrined in Article 51 of the Spanish Constitution. In this case law, one is able to note the relevance of the protection of consumers as a fundamental right under the Spanish constitutional system and its boundaries with other fundamental rights, such as the freedom of competition and private property.[53]

### 23.3.2 Protection and Remedies for Consumers Under the Spanish Legal Framework: Public and Private Law Aspects

Consumers are allowed and are entitled to the right to invoke their constitutionally protected interests against private entities individually and collectively (collective redress). Administrative Spanish institutions take control of the safety and public policy (mandatory provisions) concerning the welfare of consumers and their interests in some cases. As an example, Spanish Ombudsman (in Spanish: Defensor del pueblo) is also endowed with legal standing to represent the interests and fundamental/constitutional rights of the consumers as a whole (protecting the public order and interests in general).

Furthermore, consumers can invoke protection of their constitutional rights before the civil and administrative courts in Spain, through the “state action law” (as administrative remedy) provided that, or in the case that a State administrative body or of any of the seventeen Autonomous Communities of Spain (e.g., National Institute of Consumo—Instituto Nacional de Consumo) have infringed their constitutional rights.[54]

From a private law approach, the Spanish legal framework provides for civil remedies for the consumers, such as individual or collective remedies by means of consumer associations or organizations in charge of their collective legal standing, as well as through the European and Spanish official institutions, which represent the public interests of consumers, according to Article 33 of SUCA.

[52]In purchase, sales and services operations, see, J. Gutierrez, Consumer Protection in Spain, available in English at http://www.buigas.com/webroot/files/Publications/img/articulos_107_Consumer_Protection_in_Spain.pdf. Accessed 25 October 2018.

[53]Articles 38 and 33 of the Spanish Constitution respectively; A. Cerviño Casado, Derecho de marcas y protección de los consumidores: el tratamiento del error del consumidor, Tecnos, Madrid, 2000; for instance, Judgment of the Spanish Constitutional Court, 88/2017, of 19 July 2017 [ECLI: ES: TC: 2017:88]; a state action against the Catalonian government concerning the right of consumers to be attended in Spanish and not only in Catalonian according to the Spanish Constitution.

[54]It will depend on the specific Autonomous Community sectorial and administrative regulation (Statute of Autonomy) on consumers and users protection.

These private remedies are established in the main law for the consumers' protection: Spanish General Law on Protection of Consumers and Users,[55] SUCA, and in other sectorial laws, as well as in self-regulations related to consumer protection.[56]

#### 23.3.2.1 Specific Aspects of Consumer Protection and IP Right Protection

##### 23.3.2.1.1 After-Sales Service Liability, the Right to Repair, and Other Related Aspects

Certain provisions—with regard to the conditions and regulation of the after-sales service[57]—of Spanish General Law on Protection of Consumers and users implicitly comprehend protection for the trademark holders.

Likewise, the right to repair and after-sales services[58] are recognized in the Spanish Retail Trade Act[59] and in the Spanish Law on Consumers and Users Protection,[60] as well as in the autonomous communities' special regulation concerning consumer's rights. Moreover, despite the fact that Spanish law does not clearly differentiate between digital goods, there is an implicit distinction between products which nature is durable or not. When these products are durable goods, liability lies on the manufacturers and sellers.[61] In digital goods, due to their features and according to Directive 2011/83/EU (implemented into Spanish General Law on Protection of Consumers and Users), there was a change. Providers and sellers online must adapt their websites in order to comply with the right of information for the consumers. Concerning other products such as removable batteries, under Spanish legislation, a specific Royal Decree on removable batteries, storage batteries (accumulators), and environmental management of waste generation was enacted in 2018,[62] which complements Spanish Act 22/2011, of 18 July, on

[55] Texto Refundido de la Ley General para la Defensa de Consumidores y Usuarios y otras Leyes complementarias, aprobado por el Real Decreto 1/2007, de 16 de noviembre (as amended by Law 3/2014 of 27 March).

[56] M.P. Moller Píquer, La prueba en el proceso de consumidores y usuarios español, Universidad Jaume I 2017, available at: https://www.tdx.cat/bitstream/handle/10803/404729/2017_Tesis_Mollar%20Piquer_MPilar.pdf?sequence=1&isAllowed=y. Accessed 6 November 2018.

[57] Article 8 set out the rights of consumers and users, namely lit b and c; and Title IV, Chapter IV: Articles 125 to 127.

[58] Both legal entities are encompassed in the Article 12 of Spanish Retail Trade Act.

[59] Ley 7/1996, de 15 de enero, de Ordenación del comercio minorista, *Official State Gazette* (15), of 17 January 1996.

[60] See Article 118 Spanish Law on Consumers and Users Protection: Under this Article, consumers can choose between the provider and the seller in order to demand them the repair of the product, replace the deceptive product, repair or replacement or terminate the contract.

[61] Articles 124–127 Spanish Law on Consumers and Users Protection.

[62] Real Decreto 106/2008, de 1 de febrero, sobre pilas y acumuladores y la gestión medioambiental de sus residuos, Official State Gazette (37) of 12 February 2018.

waste generation of batteries (as dangerous waste). This regulation is aimed to control these kinds of products and their marketing, as well as opening up a repair market on batteries.

Burden of proof when "the right to repair" is triggered depends on the period requested by the consumers; that is, during the first six months since the product was bought, consumers are exempt from the burden of proof. Since this period of time or due date has expired, manufactures and sellers can request from the consumers any evidence that the product is defective, reversing the burden of proof (Article 139). However, repair and replacement of the product is optional for consumers (not for the sellers of manufacturers), and it must be free of charge to consumers during the period of warranties (*mutatis mutandis* for second-hand products).[63]

At the other end of the spectrum, there are certain constraints of "the right to repair" and the liability of manufacturers and sellers, which are set out in Articles 141 and 143.

#### 23.3.2.1.2 Product Liability in Digital Goods: "Breaking of Seals" and Software Replacement and Updates

Spanish Law on Consumers and Users Protection has included also provisions related to product liability on products and on services.[64] In 2007, this Law abrogated the special law on product liability in Spain, the Spanish Act 22/1994, of 6 July, on civil aspects of product liability, which implemented Directive 85/374 concerning liability for deceptive products with regard to the process of European harmonization on these matters.

The regime of liability and warranties is established under the provisions of the Spanish Law on Consumers and Users protection set out the main aspects Article 127 *et seq.* set out the main aspects including in its wording the principle of *in dubio pro consumitore*.[65] However, Article 138 sets out who holds liability in case of deceptive products or services.[66] Usually, it is the manufacturers of products and services and their intermediaries; importers of products and services in the internal market or any person who represents the importers and introduce the seals, packages, and other similar element of protection of the products and services or even related to their trademarks and brands; and manufacturers and importers of the EU. Facing the

[63]Article 119 Spanish Law on Consumers and Users Protection.

[64]P. Corbacho Ramírez, Responsabilidad civil por daños personales causados en accidentes acaecidos en establecimientos abiertos al público, Revista de Responsabilidad civil y seguro 2012, pp. 9–22, in this sense, the law increases the substantive scope of protection; M.A.Parra Lucán, La Protección al Consumidor frente a los daños. Responsabilidad del fabricante y el prestador de servicios, Reus S.A 2010.

[65]Cf. A. Payà Pujadò, C. Ara Triadú and D. Casanueva de la Cruz, Spain. Consumer Protection, Cuatrecasa-Gonçalves Pereira, available at https://www.cuatrecasas.com//media_repository/docs/esp/spain._international_consumer_protection_920.pdf. Accessed 2 November 2018.

[66]Article 138 is related to Article 5 and Article 13 of the same body of law concerning the definition of producer that Spanish lawmaker has drafted, in order to understand what is understood under Spanish Legal Framework who are the producers; Royal Decree 1801/2003 also establishes a differentiation between the legal duties of manufacturers and distributors.

impossibility of identifying the manufacturer, providers will be liable unless within the three first months of the claim they are able to identify the manufacturer. The same rule will be applied in cases where the labels of the imported products do not properly identify the importers but the manufacturers.[67]

In software replacements and updates, the articles mentioned in this section and in the previous section are applied in the exercise of the right to repair and to after-sales services.[68]

### 23.3.3 *More Economic Approach* and *More Based Effects Approach*: Balance of the Interests of Consumers, Competition, and IP Rights Protection

European Competition Law is still portraying the "more economic approach," taking into account how Articles 101 and 102 TFEU are drafted. Moreover, concerning this statement, there is a lively academic and political debate in the European Union between the scholars who hold the change of paradigm into the "more based effects approach" in the current European Competition Law.[69] On the other hand is a majority of scholars who hold that there is no change of paradigm at all because European Competition Law, according to their opinions, does not need a change of paradigm.[70]

As it is well known to competition scholars and lawyers, the "more economic approach" is focused on the protection of competition interests, i.e., the ordoliberal

[67]Producers and services providers can be exonerated according to Article 140 if the product had not yet been marketed; the product was not unsafe upon the marketing of the product; when it was not manufactured for the sale or any kind of distribution for economic purposes, manufactured, imported, supplied or delivered within a commercial network; deceptive product was performed under mandatory rules on manufacturing; and, when delivering the product, neither scientific nor technical knowledge could appreciate the defects; A. Payà Pujadò, C. Ara Triadú and D. Casanueva de la Cruz, Spain. Consumer Protection, Cuatrecasa-Gonçalves Pereira, available at: https://www.cuatrecasas.com//media_repository/docs/esp/spain._international_consumer_protection_920.pdf. Accessed 2 November 2018.

[68]Further details: M.S. Bermúdez Ballesteros, Consecuencias del incumplimiento de la obligación de suministrar piezas de repuesto dentro y fuera del período de garantía legal de los productos, Cesco 2014, available at http://blog.uclm.es/cesco/files/2014/03/Consecuencias-del-incumplimiento-de-la-obligación-de-suministrar-piezas-de-repuesto.pdf. Accessed 3 November 2018.

[69]P. Behrens, The ordoliberal concept of "abuse" of a dominant position and its impact on Article 102 TFEU, ASCOLA 2015, available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2658045. Accessed 3 November 2018.

[70]*Inter alia*, O. Andriychuk, Can We Protect Competition Without Protect Protecting Consumers?. The Competition Law Review 2009 (1), pp. 77–87, at p. 87, as the author considers, one aspect is economic efficiency and the other aspect is consumer welfare; P. Akman, Consumer Welfare and Article 82 EC: Practice and Retoric, World Competition Law Review 2009 (32), pp. 71–90; A. D. Chirita, Undistorted, (Un) Fair Competition, Consumer Welfare and the Interpretation of the Article 102 TFEU, World Competition Law and Economic Review 2010 (33), pp. 417–436.

concept of competition. How to balance the interests of the IP right holders of the consumers and of the same competition process (including the level playing field) is still being debated on by the European and domestic legislators of the Member States concerning a change of wording of Articles 101 and 102 TFEU.[71]

From our point of view, the "more economic approach" as economic theory of Competition law has shown that leads impaired or unfair results insofar the improvement of the protection of consumers as part of the protected interests in the Market, due to it is not focused on consumers' welfare. On the contrary, the "more based effect approach" leads fair results, because it takes into account the balance between the three protected interests in the Market, consumers, competitors and market (the so-called *Schutzzwecktrias*). As a consequence, the implementation of the "more based effect approach" in European Union laws could be one of the best outcomes for the European lawmaker in order to improve the coordination and protection of the different bodies of law wherein the protection of consumers is established, such as Competition, IP Rights and Consumer regulations.

## 23.4 Final Remarks

There is still a weak balance between the interests of holders of IP rights and consumer protection, in spite of the fact that the different bodies of laws analyzed are aimed at pursuing a balance between all the interests protected in the marketplace. In the internal market, as it is well known, free movement of goods and services must be preserved in the first place so as to avoid the trade barriers *ad intra* that may come out in the commerce of IP rights, such is the case of trademarks as valuable assets for the promotion of goods and services. The lack of European harmonization and standard creates legal uncertainty in certain areas of trade and commerce, namely in IP and Consumer rights protection, but also the excess of harmonization and standard if the European lawmaker does not create coordination among these different bodies of law. Furthermore, there is still a lack of coordination and many overlaps in competition law, consumers and IP right protection despite its irrefutable link.

From our point of view, one of the solutions is given by the "holistic approach," which integrates in itself the relationship between the legal disciplines and creates adequate links between all of them. In this sense, it offers a fair balance and protection of all the interests at stake, namely of the online regulatory challenges encouraging new business competitive models and new ways of IP right protection online. As some Spanish scholars (such as Carbajo) have argued, this aspect concerning the balance of interests should deserve a deep review by the lawmarkers of every IP law and redraft them again, taking into account all the edges.

[71] F. Carbajo Gascón and C. A. Uribe Piedrahita, Regulación "ex ante" o regulación "ex post": la difícil regulación entre el Derecho de competencia y los derechos de propiedad intelectual, Actas de Derecho Industrial 2012–2013 (33), pp. 307–330.

# 24 Sweden

Johanna Spjuth and Martin Zeitlin

## 24.1 Background

Intellectual property rights (IPR) have a major importance in the modern economy and are often a prerequisite for the dynamic development of culture, technology, and economic prosperity.[1] Naturally, the holding of IPR brings economic value, and the rights are accordingly regarded as vital organisational assets. As the economy has evolved into the state it is known today, with all the digital aspects thereof, the need for protection persists—perhaps even to an increasingly significant extent. Thus, organisations today have a need to protect their IPRs and their brands overall, for instance in the context of on- and offline distribution and after-sales services. Quite intuitively, the warranted protection may not be too expansive since the unlimited protection of IPR inevitably would restrict free competition and interfere with consumers' interests. The need to strike a fair balance between, on one hand, the interests of right holders and, on the other hand, the interests of the consumers and the functioning of the markets is therefore paramount. This chapter will briefly address these issues in light of Swedish law.

### 24.1.1 Influence of European Law

Since 1995, Sweden has been a full member of the European Union. Given the essential role of IPR in the economy, it has naturally been the subject of

[1] S. Wolk, Immaterialrätten då, nu och i framtiden, Svensk Juristtidning 2016, p. 130.

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_24

comprehensive harmonisation efforts with the pursued aim of market integration in the European Union/European Economic Area (EU/EEA). By virtue of the Lisbon Treaty, the EU has been given explicit competence to legislate on issues concerning IPR.[2] Hence, the legislative discretion awarded to Sweden is nowadays limited. Additionally, Swedish courts and public authorities are bound to follow the case law of the Court of Justice of the European Union (CJEU) in order to guarantee compliance with EU law in accordance with the fundamental principle of the effectiveness of EU law[3] and the principle of EU-consistent interpretation.[4] Conclusively, Swedish law essentially mirrors EU law in terms of IPR. This chapter will therefore deliberately exclude some issues that are largely covered by the CJEU's case law and will instead focus on—in the authors' view—the distinctive features of Swedish law in light of applicable EU law.

## 24.2 Overview of the Legal Framework

The *raison d'être* of IPR lies within the fundamental purpose of stimulating and protecting creative efforts, including innovations, by enabling companies to protect and individualise their organisations, products and investments.[5] In the Swedish legal tradition, the interests of authors in terms of copyright have in these matters been given a particular emphasis. In the early Swedish *travaux préparatoires* regarding copyright, it was emphasised that the legal system should strive to enable authors to contribute to the cultural development to the extent that each author's talent warrants.[6] The importance of copyright is illustrated by the fact that it is protected in the Swedish constitution, which establishes that 'authors, artists and photographers shall own the rights to their works in accordance with rules laid down in law'.[7] The constitutional protection of copyright is mainly justified by its importance for ensuring free exchange of opinions and comprehensive information. Accordingly, other forms of IPR do not warrant such protection.[8] Furthermore, copyright is only partially harmonised in the EU/EEA contrary to design and trademark protection.[9]

The most common forms of IPR are regulated in the Swedish Act on Copyright in Literary and Artistic Works (1960:729), Trademarks Act (2010:1877), Patents Act (1967:837) and Design Protection Act (1970:485). The Swedish Patent and Market

[2] Article 118(1) TFEU.

[3] Article 4(3) TEU.

[4] M. Bobek, The effects of EU law in the national legal systems. In Barnard and Peers (eds), European Union Law, Oxford University Press 2014, p. 153.

[5] U. Bernitz, L. Pehrson, J. Rosén and C. Sandgren, Immaterialrätt och otillbörlig konkurrens, Jure 2017, p. 1.

[6] SOU 1956:25. Upphovsmannarätt till litterära och konstnärliga verk, p. 85.

[7] Instrument of Government (1974:152), 2 Chap. 16 section.

[8] Prop. 1975/76:209. Om ändring i regeringsformen, p. 129.

[9] U. Bernitz and A. Kjellgren, Europarättens grunder, 4th ed, Norstedts juridik 2010, p. 396.

Court is the exclusive forum for most matters concerning IPR, competition law and unfair commercial practices. The judgments of the Swedish Patent and Market Court can be appealed to the Swedish Patent and Market Court of Appeal. In principle, further appeals are not allowed; however, exceptions can apply. Accordingly, when the Patent and Market Court of Appeal finds it necessary, a specific judgment may be appealed to the Swedish Supreme Court.[10] Although the Patent and Market Court of Appeal is relatively new as it was introduced in September 2016, the court has so far been restrictive when it comes to allowing judgments to be appealed to the Swedish Supreme Court.

### 24.2.1 Consumer Protection, Unfair Business Practices and Competition Law

Consumers' interests are not constitutionally protected in Sweden. Traditionally, Swedish consumer policy has largely been based on negotiations between the industry and the supervisory authority with a major influence of guidelines, industry practice and other means of self-regulation.[11] Through the harmonisation of consumer protection in the EU/EEA, Sweden today has extensive legislation mirroring European consumer law. In the EU, consumer protection must be taken into account in defining and implementing policies and activities in accordance with Article 12 TFEU. Furthermore, Article 38 of the EU Charter[12] stipulates that EU policies shall ensure a high level of protection. In other words, the protection granted by EU primary legislation largely compensates for the absence of consumer protection in the Swedish constitution.

The Unfair Commercial Practices Directive[13] is implemented into Swedish law in the Marketing Act (2008:486). The act additionally implements the Misleading and Comparative Advertising Directive.[14] Contrary to the Unfair Commercial Practices Directive, the Marketing Act applies not only to any business practice that is unfair towards consumers, as stipulated in Article 3(1) of the directive, but also to any practice that is unfair towards other businesses, i.e. as a rule competitors.[15] Although the Swedish Marketing Act served as a guiding example for the directive during its

[10]See Act on Patent and Market Courts (2016:188), 1 Chap. 3 section.

[11]SOU 1994:14. Konsumentpolitik i en ny tid, p. 148.

[12]Charter of Fundamental Rights of the European Union, OJ 2000/C 364/01.

[13]Directive 2005/29 of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450, Directives 97/7, 98/27 and 2002/65 of the European Parliament and of the Council and Regulation 2006/2004 of the European Parliament and of the Council, OJ 2005 L 149/22.

[14]Directive 2006/114 of the European Parliament and of the Council of 12 December 2006 concerning misleading and comparative advertising, OJ 2006 L 376/21.

[15]Marketing Act (2008:486), 1 section.

legislative process, business-to-business practices are not covered in the directive.[16] In Sweden, any business that is affected by the unfair business practice has *locus standi* and competitors may accordingly bring proceedings against each other due to unfair business practice.[17] This includes proceedings based on provisions enacted with the purpose of ensuring consumer protection. As to competition law, it is regulated in the Competition Act (2008:579) mirroring EU competition law. The Swedish Consumer Agency and Consumer Ombudsman is the supervisory authority for matters of consumer law and unfair competition, whereas the Swedish Competition Authority is the supervisory authority for matters of competition law.

### 24.2.2 The Swedish Trademarks Act

The Swedish Trademarks Act (2010:1877) contains provisions regarding the protection of trademarks and includes both individual marks and collective marks—i.e. warranty and check marks. The act is the result of heavy influence from EU law and, naturally, also international treaties. The most substantial contributing source for the subject matter of the Trademarks Act is irrefutably the EU's Trademarks Directive.[18] The exclusive right to a trademark is guaranteed in accordance with 1 Chap. 10 section Trademarks Act, which corresponds with Articles 10(1) and 10(2) of the Trademarks Directive. Article 10(3) provides an exemplifying list of actions that *in particular* may be prohibited. The Swedish act, on the other hand, lists the same actions as *all possible forms* of use that may constitute an infringement. The third paragraph of 1 Chap. 10 section Trademarks Act defines the use, i.e. all possible acts that can constitute an infringement, of a trademark as follows:

1. affixing the sign to the goods or to the packaging thereof;
2. offering the goods, or putting them on the market, stocking them for those purposes, under the sign, or offering or supplying services thereunder;
3. importing or exporting goods under the symbol; or
4. using the sign on business papers and in advertising.

The exclusive rights guaranteed by the Trademarks Act apply to both registered trademarks and trademarks that have *acquired distinctiveness through use*, as opposed to the Trademarks Directive that only applies to registered trademarks.[19] Moreover, trade names are furthermore protected under the Trade Names Act (1974:156). Hence, Swedish law provides a wider scope of protection than what is

[16]U. Bernitz, Europarättens genomslag, Norstedts juridik 2012, p. 321.

[17]Marketing Act (2008:486), 47 section.

[18]Directive 2008/95 of the European Parliament and of the Council of 22 October 2009 to Approximate the Laws of the Member States Relating to Trade Marks, OJ 2008 L 299/25.

[19]Trademarks Act (2010:1877), 1 Chap. 6-8 sections.

necessary to comply with the Trademarks Directive since it also covers unregistered trademarks.

The exclusive rights to a trademark restrict third-party use of the protected trademark in essentially all business operations. As there is an inherent risk of excessive monopolisation, the scope of the exclusive rights is restricted. The Swedish Trademarks Act imposes restrictions to the exclusive right in 1 Chap. 11 section of the act (mirroring Article 6 of the Trademarks Directive). The second paragraph of 1 Chap. 11 section states the following:

> Exclusive rights in a trade symbol do not prevent a third party from using, in accordance with honest practices in industrial or commercial matters, in the course of trade
>
> 1. his or her trade name, name or address;
> 2. indications concerning the kind, quality, quantity, intended purpose, value, geographical origin or other characteristics of the goods or service or the time of production of the goods or rendering of the service,
> 3. the trade symbol, if it is necessary to indicate the intended purpose of the product or service, in particular as accessories or spare parts.

Accordingly, the exclusive rights cannot be used to prohibit third parties from using trademarks in the course of business given that it is done in accordance with honest business practice. These restrictions are interpreted in accordance with the leading cases of the CJEU covering the topic. Amongst the landmark cases is the *BMW case*[20] where the CJEU established that honest business practice essentially entails a duty of loyalty to the trademark proprietor's legitimate interests. In the case, the CJEU settled that a workshop repairing cars was allowed to use BMW's trademarks, including figurative marks, as long as the use did not lead to the public believing that there was any connection between the workshop and BMW. Another landmark case is *Gillette*,[21] where the CJEU concluded that third-party use of a trademark may not be prohibited if such use practically is necessary to provide the public with comprehensible and complete information regarding the intended purpose of the goods or services of the third party. Moreover, in the *Gillette* case, the CJEU further defined 'honest business practice'. Other than mistakenly giving the impression of a commercial relationship between the third party and the trademark proprietor, a violation of honest business practice is at hand if the use results in an unfair advantage due to the trademark's well-known reputation or if the use discredits the trademark.[22] The application of Swedish trademark law may not deviate from the CJEU's findings in these landmark cases.

[20]ECJ, case 63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v Ronald Karel Deenik*, ECR 1999 I-905.

[21]ECJ, case 228/03, *The Gillette Company and Gillette Group Finland Oy v LA-Laboratories Ltd Oy*, ECR 2005 I-2337.

[22]U. Bernitz, L. Pehrson, J. Rosén and C. Sandgren, Immaterialrätt och otillbörlig konkurrens, Jure 2017, p. 295.

### 24.2.3 Protection of Brands in Swedish Marketing Law

#### 24.2.3.1 Comparative Advertising

Comparative advertising is when a trader directly or indirectly refers to another trader or such trader's protected trademark in advertising. Apart from trademark legislation, such use must also be in accordance with the Marketing Act. In the act, 1 Chap. 18 section, implementing Articles 7(2) and 14 of the Unfair Commercial Practices Directive,[23] states the following:

> A trader may, in its advertising, directly or indirectly refer to another trader or such trader's products provided that the comparison
>
> 1. is not misleading,
> 2. refers to products which fulfil the same needs or are intended for the same purpose,
> 3. objectively refers to material, relevant, verifiable, and distinguishing characteristics of the products,
> 4. does not give rise to confusion between the trader and another trader or between their products, trademarks, business names, or other distinctive marks,
> 5. does not discredit or disparage another trader's business, circumstances, products, trademarks, business name or other distinctive marks,
> 6. in respect of goods bearing a designation of origin, at all times pertains to goods of the same designation,
> 7. does not take unfair advantage of the reputation associated with another trader's trademark, business name, or other distinctive marks or the designation of origin of the goods, and
> 8. does not present a product as an imitation or copy of a product with a protected trademark or business name.

The CJEU has further defined the relationship between trademark law and unfair business practices. In the case of *L'Oréal and Others*,[24] the court held that in cases of comparative advertising involving (well-known) trademarks, courts must also assess the reputation of the trademark at hand since the strength of the reputation and the degree of distinctive character of the mark will open up the mark to more detriment in comparative advertising. Furthermore, the more immediately and strongly the mark is brought to mind by the sign, the greater the likelihood that the current or future use of the sign is taking, or will take, unfair advantage of the distinctive character or the reputation of the mark.[25] Consequently, the court conceptualised an inherent link between intellectual property law and advertising law. Such lucid link has not always been that prevalent in the Swedish legal system. That is because the old Swedish Market Court used to be the court of highest instance for issues

[23]Directive 2005/29 of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450, Directives 97/7, 98/27 and 2002/65 of the European Parliament and of the Council and Regulation 2006/2004 of the European Parliament and of the Council, OJ 2005 L 149/22.

[24]ECJ, case 487/07, *L'Oréal SA, Lancôme parfums et beauté & Cie SNC and Laboratoire Garnier & Cie v Bellure NV, Malaika Investments Ltd och Starion International Ltd.,* ECR 2009 I-5185.

[25]Ibid, para 44.

regarding, inter alia, competition and unfair business practice but not for trademark law.[26] This is no longer the case as the Swedish court system has been changed and the Market Court has ceased to exist in favour of the Patent and Market Courts (which also settles cases concerning trademark law). The earlier court system has inevitably given rise to a strong distinction between trademark and advertising law.[27] Whether such distinction will remain or disintegrate in light of the new Patent and Market Courts is yet to be determined.

The distinction between marketing law and trademark law nevertheless began to disintegrate in the old Market Court. Similar to the link established in the case of *L'Oréal and Others* (see above), the good reputation of a trademark can be accounted for when assessing the 'good reputation of a trader' in accordance with advertising law. This was established in the Market Court's case *MD 2012:15*,[28] where marketing law (unfair commercial practices) and IPR were assessed together. In the proceedings, the claimant Elskling alleged that the defendant Kundkraft had used its well-known trademark ELSKLING in keyword advertising and that such use thus constituted a trademark infringement. The claimant also alleged that the use of the trademark constituted an unfair advantage of its good reputation (i.e. 'passing off' or the 'free rider phenomena'), hence a violation of good marketing practice in accordance with 5 section Marketing Act. The Market Court concluded, in accordance with the CJEU's judgment in the joined cases of *Google France v Louis Vuitton*,[29] that keyword advertising falls within the scope of commercial practices. *In casu*, the Market Court held that the use of the keyword ELSKLING could not be deemed to have caused any damage to the functions of the claimant's trademark, nor did the use of the trademark constitute any unfair advantage in terms of unfair business practice. Nevertheless, the court importantly stressed that the good reputation of a trademark can be attributed to the notion of good reputation in Swedish marketing law.[30]

#### 24.2.3.2 Misleading Imitations

Another provision protecting the interests of trademark proprietors in relation to unfair business practice can be found in 14 section Marketing Act, establishing the following:

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[26] Act on Market Court and More (1970:417), 1 section.

[27] S. Arnerstål, Varumärkesanvändning, Norstedts juridik 2018, p. 214.

[28] Judgment of the Swedish Market Court of 11 December 2012, case MD 2012:15, *Elskling AB v Kundkraft Sverige AB*.

[29] CJEU, joined cases C-236/08, C-237-08 and C-238/08, *Google France SARL and Google Inc. v Louis Vuitton Malletier SA (C-236/08), Google France SARL v Viaticum SA and Luteciel SARL (C-237/08) and Google France SARL v Centre national de recherche en relations humaines (CNRRH) SARL and others (C-238/08)*, ECR 2010 I-2417.

[30] Judgment of the Swedish Market Court of 11 December 2012, reference MD 2012:15, *Elskling AB v Kundkraft Sverige AB*, paras 113–117.

> A trader may not, in the course of marketing, use copies that are misleading in that they can easily be confused with another trader's known and distinctive products. This does not, however, apply to copies the design of which is primarily intended to render the product functional.

The notion of 'imitation' encompasses not only identical goods but also similar products where a risk of confusion is at hand. The assessment of whether an imitation is misleading shall be independent from any assessment of intellectual property infringement.[31] The Marketing Act provides protection against unfair commercial practices—regardless of whether the existence of IPR is at hand. It is, however, required that the allegedly imitated product is distinctive and known. The prerequisites 'distinctive' and 'known on the market' originate from case law from the old Swedish Market Court.[32] In accordance with the definition of distinctive, it is required that the product's design is aesthetically distinctive from other goods.[33] The notion of 'known' essentially requires that the product has acquired distinctiveness through use.[34] Furthermore, there must be a likelihood of confusion amongst the consumers between the product of the claimant and the allegedly misleading marketing in order for 14 section Marketing Act to be applicable. According to Swedish case law, imitation applies not solely to copies but also to any display of product that may be deemed to be misleading due to a risk or likelihood of confusion amongst the consumers. When assessing if such risk or likelihood is at hand, particular consideration must be taken to the fact that consumers may have a fading ability to recall certain products, thus warranting a need to broaden the definition of imitation to encompass more than mere copies.[35] In conclusion, the Swedish Marketing Act provides a layer of protection that is additional to other forms of IPR, in particular to trademarks and design protection. Moreover, the protection in advertising law does not require any form of registration of specific IPR, nor does it come with any limits in terms of the duration of the protection—contrary to intellectual property protection.

[31] Prop. 1970:57. Förslag till lag om ändring i lagen (1970:412) om otillbörlig marknadsföring m. m., p. 90 and prop. 1994/95:123. Ny marknadsföringslag, p. 56.

[32] See e.g. judgments of the Swedish Market Court references MD 1983:3, MD 1983:23 and MD 1985:4.

[33] Prop. 1994/95:123, pp. 59, 168.

[34] M. Levin, Kommentar till 14 section marknadsföringslagen, Karnov 2018.

[35] See e,g, judgments of the Swedish Market Court references MD 1974:5 and MD 2006:3.

## 24.3 The Exhaustion Doctrine and Trademarks' in Relation to Competition Law

### 24.3.1 Parallel Imports and the Exhaustion Doctrine

The underlying principle of Swedish law is, in accordance with EU law, that products or services that have been exhausted in relation to trademarks may also be sold and advertised in the EU/EEA.[36] The underlying reason for exhaustion is, rather self-explanatory, to diminish the risk of complete monopolisation with regard to production, sales and repairs through the holding of trademarks.[37] Exhaustion of trademarks is regulated in 1 Chap. 12 section Trademarks Act (2010:1877), prescribing the following:

> Exclusive rights in a trade symbol do not prevent a third party from using the symbol in relation to goods which have been put on the market in the European Economic Area under that trade symbol by the proprietor or with the proprietor's consent.
>
> The first paragraph does not apply when the condition of the goods is changed or impaired after they have been put on the market or when there exist legitimate reasons for the proprietor to oppose the use.

Similar provisions can also be found in relation to other forms of IPR; regarding copyright in 19 section Act on Copyright in Literary and Artistic Works (1960:729), regarding patents in 3 section Patents Acts (1967:837) and regarding design protection in 7b section Design Protection Act (1970:485).

The CJEU has taken a generous approach towards parallel importing from other EU/EEA countries, which naturally comes with certain difficulties in terms of IPR since the doctrine of exhaustion traditionally has been determined nationally. Mainly in order to facilitate the freedom of movement of goods in the EU/EEA, the CJEU has concluded that, as a rule, the doctrine of exhaustion applies to goods that lawfully have been sold within or imported to the EU/EEA. Conclusively, IPR does essentially not affect parallel importing between different countries of the EU/EEA. In other words, the doctrine of exhaustion is regional—covering the internal market of the EU/EEA.[38] In the case of *Sebago*,[39] the CJEU concluded that a trademark proprietor must give his or her consent relating to each individual item of the product in respect of which exhaustion is pleaded. Rules regarding exhaustion may not singlehandedly be decided by the Member States of the EU

[36] S. Arnerstål, Varumärkesanvändning, Norstedts Juridik 2018, p. 170.

[37] L. Pehrson, Varumärken från konsumentsynpunkt, Liber 1981, p. 338.

[38] U. Bernitz, U & A. Kjellgren, Europarättens grunder, 4th ed., Norstedts juridik 2010, p. 356.

[39] ECJ, case 173/98, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA*, ECR 1999 I-4103.

and is accordingly an issue reserved to the EU and the CJEU to decide upon.[40] Regarding evidential matters, it is generally not decided or assessed by the CJEU; nevertheless, some guidance can be found in the case of *van Doren + Q*,[41] where the CJEU accepted that, as a rule, the burden of proof for the existence of exhaustion lies upon the third party using the trademark at hand. Exceptions to the rule may be imposed, derived from the protection of free movement of goods, when a third party successfully establishes that there is a real risk of partitioning the national markets if he himself bears the burden of proof. If the trademark proprietor markets its products in the EU/EEA, it is accordingly up to the proprietor to prove that the products were initially placed on the market outside the EU/EEA by him or her or with his/her consent. If such evidence is presented, it is up to the third party to prove the consent of the trademark proprietor to subsequent marketing of the products in the EU/EEA. This is particularly the case if the trademark proprietor markets his or her products using an exclusive distribution system.[42] Swedish courts are naturally bound by the case law of the CJEU in these matters.

### 24.3.2 Intellectual Property Law in Relation to Competition Law

The exhaustion doctrine can be categorised as a demarcation of trademark protection in favour of the free movement of goods and services. It is widely known that intellectual property law inherently restricts competition in a way that it warrants a legal monopoly. Different licenses regarding use of IPR may be in conflict with competition law if protection is awarded to an extent surpassing what is necessary in order to secure the exercising of that right.[43] In the Swedish *travaux préparatoires* concerning the Competition Act, which are awarded significant value for interpreting the law, it is stated that when assessing an agreement regarding the use of IPR, the positive effects of such agreement must be weighed against any negative effects in light of competition law.[44] One case concerning IPR and free competition is *MD 1998:5*[45] concerning STIM (a Swedish society for collective management of copyright) and a TV company. The Swedish Market Court assessed the model for calculating the compensation for the use of music protected by copyright. The calculating model in question was applied based on the channel's actual views in relation to the respective channel's own coverage area. Such

[40] ECJ, case 355/96, *Silhouette International Schmied v Hartlauer Handelsgesellschaft,* ECR 1998 I-4799, pt 31.

[41] ECJ, case 244/00, *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth*, ECR 2003 I-3051.

[42] Ibid, pt 42.

[43] Prop. 1992/93:56. Ny konkurrenslagstiftning, p. 70.

[44] Ibid, p. 71.

[45] Judgment of the Swedish Market Court of 16 April 1998, reference MD 1998:5, *Föreningen Svenska Tonsättares Internationella Musikbyrå (Stim) v TV3 Broadcasting Group Ltd.*

application resulted in a regular disadvantage for TV companies with less coverage in favour of TV companies with a greater coverage. Hence, the court found that the model discriminated against low-coverage companies *vis-á-vis* companies with high-coverage and therefore concluded that the compensation model was not neutral in relation to different competitors, thus resulting in an abuse of dominant position by STIM. Although the case did not concern the scope of protection regarding IPR *per se*, it did concern licensing and established that the exercise of IPR comes with limitations in light of competition law, as earlier stated in the travaux préparatoires. Further examples of the balancing of IPR with competition law in Swedish case law will follow in Sect. 24.3.7 below.

### 24.3.3 Judgment of the Patent and Market Court of Appeal of 29 June 2018, Reference PMT 1988-17, *Konkurrensverket v Swedish Match*

In 2012, Swedish Match—a producer of snus (a tobacco product commonly used in Sweden)—provided retailers with refrigerators to be used visibly in stores with one of the requirements being that the retailers complied with instructions for the presentation of labels. According to the conditions, the products of the competitors of Swedish Match could be stored in 20% of the area in each refrigerator. However, if the competitors did not comply with the labelling instructions of Swedish Match, it was within the discretion of Swedish Match to replace the competitors' labels with generic grey and white labels.

The Swedish Competition Authority brought proceedings against Swedish Match claiming a violation of 2 Chap. 7 section Competition Act (2008:759), mirroring Article 102 TFEU (i.e. abuse of dominant position). The Patent and Market Court (court of first instance) found that Swedish Match had abused its dominant position and ordered the company to pay a relatively hefty administrative fine of 37,982,000 SEK for market disruption. The judgment was subsequently appealed to the Patent and Market Court of Appeal, which found that, due to the significance of the labelling with regard to marketing exposure, Swedish Match indeed was a dominant undertaking and the labelling system itself had been anticompetitive. Nonetheless, the court of appeals found, contrary to the court of first instance, that there were objective justifications at hand. The court stated, essentially *ex officio*, that the marketing of tobacco to consumers is severely restricted in Sweden, in particular with regard to 14 section Tobacco Act (1993:581). According to the statutory defined restrictions in the Tobacco Act, the display and marketing of tobacco products in stores must be particularly moderate, i.e. it shall not be deemed intrusive, outreaching or encouraging towards the use of tobacco. Given that Swedish Match had a responsibility to comply with the Tobacco Act, the court of appeal found that ensuring legal compliance could be deemed an objective justification of the abuse of an otherwise dominant position. Given that the instructions of Swedish Match still allowed the display of competitors' trademark, price of products and their forms, the actions could be deemed proportional. Significantly, the court held that regardless of the intentions of Swedish Match, a conduct objectively aimed at mitigating risks of non-compliance is considered objectively justified. Consequently, regardless of the intentions of Swedish Match and the disruption caused in the market thereof, the conduct could be justified.

According to the reasoning of the Patent and Market Court of Appeal, the purpose of ensuring compliance with marketing regulation thus superseded the effects of the anticompetitive means. Consequently, some trademark proprietors may restrict the display of third party trademarks in distribution systems to ensure compliance. Since similar provisions as the ones aforementioned in the Tobacco Act are at hand in relation to gambling and alcoholic beverages in Sweden, it is likely that the reasoning of the judgment likewise applies to those types of goods and services. It is nevertheless unclear if the reasoning of the court can be applied to other forms of regulatory compliance, e.g. data protection.

### 24.3.4 To What Extent Does Trademark Law Allow the Trademark Proprietor to Determine the Terms and Usage of the Products?

The basic purpose of a trademark is to correctly guarantee the commercial origin of the branded product or service.[46] The guaranteeing of origin has been identified as the basic function of the brands in several rulings by the CJEU, e.g. the landmark case of *Arsenal*,[47] settling the following:

> [. . .] the essential function of a trade mark is to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality [. . .][48]

The guarantee of commercial origin of the goods or services means that consumers who purchase, or in any other way come in contact with, the branded goods or services are ensured that they correspond with the consumers' expectations based on previous purchases and/or anticipations.[49] In the legislative process prior to the old Swedish Trademarks Act being enacted (in 1960), it was argued that consumers perceive a kind of guarantee that a product has certain qualities that

[46] S. Arnerstål, Varumärkesanvändning, Norstedts juridik 2018, p. 65.

[47] ECJ, case 206/01, *Arsenal Football Club plc v Matthew Reed*, ECR 2002 I-10273.

[48] Ibid, para 48.

[49] SOU 1958:10. Förslag till varumärkeslag, p. 73.

they associate with the said product.[50] Furthermore, it has been argued that a trademark has a subjective quality function, i.e. that consumers perceive the trademark as an expression of a definite subjective quality. However, the subjective quality is not an interest that is further legally protected, other than if the business practice is misleading according to the Swedish Marketing Act—notwithstanding the fact that the quality-assuring function was originally based on the consumer protection interest in Swedish trademark law.[51] It has been established since long ago in Swedish law that trademarks might be the most important mean of competition.[52] This is particularly the case in terms of goodwill, that in the Swedish perspective is a protection in the interest of businesses and not consumers.[53] It has recently been emphasised in the Swedish *travaux préparatoires* that trademarks increasingly are turning into independent assets in terms of goodwill and image. Accordingly, proprietors have a growing interest to see their investments protected.[54] This indicates a trend where goodwill to a larger extent might be accounted for when assessing third-party use of brands.

The Swedish Supreme Court's ruling in case *NJA 2014 s. 580* emphasises an important aspect of the uncertainty as to the relevance of the trademark's functions in relation to exclusive rights. The Swedish Supreme Court concluded that in cases of double identity, only the interests that the trademark aims to protect shall determine the scope of protection.[55] Consequently, it is only in situations where the functions of the trademark protection at hand are harmed, or at risk of being harmed, that there can be an infringement.[56] The trademark proprietor who alleges damage to any of the functions of his or her trademark must therefore prove that the mark in question assumes the alleged function *and* that the function has been damaged or is at risk of being damaged by the contested third-party use.[57] The ruling of the Supreme Court reiterates prior case law from the CJEU, necessitating the balancing of the interests of trademark proprietors with other parties' interests.[58]

### 24.3.5 Warranty Clauses

One way to protect a trademark's function of quality and image can be to determine the terms and usage of a product or service. Such behaviour could, however, be

[50] Ibid, p. 48.

[51] S. Arnerstål, Varumärkesanvändning, Norstedts juridik 2018, p. 77.

[52] SOU 1958:10. Förslag till varumärkeslag, p. 48.

[53] Ibid, p. 135.

[54] Prop. 2009/10:225. Ny varumärkeslag och ändringar i firmalagen, p. 119.

[55] Judgment of the Swedish Supreme Court of 9 July 2014, reference NJA 2014 s. 580, *Layher AB v Mon.Zon Sverige AB*, para 15.

[56] Ibid, para 20.

[57] S. Arnerstål, Varumärkesanvändning, Norstedts juridik 2018, p.106.

[58] See further in Sect. 24.3.7 below.

considered as anticompetitive—a good example of which is the case of *KIA*[59] from the Swedish Market Court, where the use of warranty clauses was assessed. The car manufacturer KIA offered a seven-year warranty for one of their models given that regular services were performed at authorised service centres. If services were performed by others than the authorised service centres, the warranty was only three years long. Authorised service centres had to be approved by KIA based on an assessment of their quality. SBF, an organisation representing Swedish suppliers of car spare parts, brought proceedings against KIA based on Articles 101(1) and 102 TFEU. The Swedish Competition Authority, following a complaint from SBF, had previously decided not to take action against KIA.

The Market Court found that there had been an agreement established between KIA and the authorised centres since the warranty clauses were part of the agreements with the authorised service centres. Regarding the relevant market, the court held that it was the service market for all cars manufactured by KIA in Sweden. In this regard, the court specifically concluded that car manufacturers' authorised service centres cannot be substituted amongst the different authorised centres. For instance, an owner of a BMW would not service his or her car at a service centre authorised by Volvo.[60] Accordingly, KIA and the authorised service centres collectively had a market share of 80% for after-sales services and the use of warranty provisions resulted in a situation where unauthorised service centres were excluded from the market. Consequently, KIA and the authorised service centres had acted in violation of Article 101(1) TFEU. Due to the high market share, the group exemption for the motor vehicle sector[61] could not be applied.[62] Additionally, the exemption laid out in Article 101(3) TFEU could not be applied since the conduct was not deemed proportional.[63]

The case of *KIA* serves as a splendid illustration of how warranty clauses may be in conflict with competition law. In this regard, it is worth noting that major brands providing after-sales services may find themselves in a dominant position at many times due to the fact that the relevant market may be defined as every buyer of the brand potentially seeking after-sales services. In other words, many brands may be in a situation where they easily can assume a dominant position of the market based on their providing of after-sales services. In such cases, enforcing warranty restrictions

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[59]Judgment of the Swedish Market Court of 4 December 2012, reference MD 2012:3, *Sveriges Bildelsgrossisters förening v KIA Motors Sweden AB*.

[60]Ibid, para 195.

[61]Commission Regulation 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, OJ L 102/1 and Commission Regulation 461/2010 of 27 May 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices in the motor vehicle sector, OJ 2010 L 129/52.

[62]Judgment of the Swedish Market Court of 4 December 2012, reference MD 2012:3, *Sveriges Bildelsgrossisters förening v KIA Motors Sweden AB*, para 213.

[63]Ibid, paras 219–220.

based on authorised repair or service centres could potentially give rise to legal issues in terms of competition law.

### 24.3.6 The Possibility to Protect Brands on E-Commerce Platforms

Protecting a brand's function and quality on e-commerce platforms may give rise to issues in terms of both competition law and the free movement of goods. The Swedish Competition Authority stated in a report from 2017 that the prohibition of sales of products at certain marketplaces, such as e-commerce platforms, could be in violation with competition law but that further case law was needed to conclusively provide guidance on the issue. In particular, the Swedish Competition Authority emphasised that they awaited the CJEU's judgment in case C-230/16 *Coty*.[64] The subsequent judgment has been delivered by the CJEU at this time.

The case of *Coty* concerned a producer that applied a selective system of distribution that imposed clauses on authorised retailers restricting sales on third-party platforms, such as Amazon and similar. Coty claimed that the restrictions were justified considering the interest of preserving the luxurious appeal of the brands concerned.[65] By reference to prior case law, the CJEU concluded:

> [. . .] the Court has ruled that the organisation of a selective distribution network is not prohibited by Article 101(1) TFEU, to the extent that resellers are chosen on the basis of objective criteria of a qualitative nature, laid down uniformly for all potential resellers and not applied in a discriminatory fashion, that the characteristics of the product in question necessitate such a network in order to preserve its quality and ensure its proper use and, finally, that the criteria laid down do not go beyond what is necessary [. . .][66]

When assessing whether a selective distribution system is necessary in terms of luxury goods, it must be acknowledged that the quality of such goods are the result of not just their material characteristics but also their allure and prestigious image, which bestow them an aura of luxury. Such aura is essential since it enables consumers to distinguish the goods. Consequently, an impairment of that aura of luxury is likely to affect the actual quality of those goods.[67] It thus follows from case law that luxury goods may require the implementation of a selective distribution system in order to preserve the quality of those goods and to ensure that they are used properly. Accordingly, a selective distribution system that is designed primarily to

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[64]Report of the Swedish Competition Authority, 2017:2, Konkurrens och tillväxt på digitala marknader, p. 60.

[65]CJEU, case C-230/16, *Coty Germany GmbH v Parfümerie Akzente GmbH,* ECLI:EU:C:2017:941, pt 10.

[66]Ibid, pt 24.

[67]Ibid, pt 25 and ECJ, case 59/08, *Copad SA v Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL),* ECR 2009 I-03421, pts 24-26.

meet those purposes is compatible with Article 101(1) TFEU.[68] Based on these considerations, the CJEU held in *Coty* that restrictions in distribution on third-party platforms with the aim of preserving the image of luxury goods are in accordance with competition law, given that the restrictions are laid down uniformly and not applied in a discriminatory fashion. It must furthermore be proportionate in the light of the objective pursued, which is up to the courts of the Member States to assess.[69]

The CJEU's reasoning emphasises that the distribution form may have an impact on how the goods, pertinent to the meaning within trademark law, are perceived by consumers or end users. Consequently, the assessment depends not only on *what* product or service that is marketed under the trademark but also on *how* that product or service is marketed. What is still unclear is how exactly this relates to the brand's traditional function of disclosing origin and quality.[70] Swedish case-law does not offer any further guidance on this topic.

### 24.3.7 Striking a Fair Balance Between IPRs and Competing Interests

As an introduction to the interplay between consumer interests and competition law in the EU/EEA, the CJEU case of *Viking Gas*[71] can serve as an illustrative example. The case concerned a retailer's refilling of gas in bottles protected as three-dimensional trademarks and the subsequent re-labelling of those bottles. The CJEU held that the trademark proprietors were not entitled to limit the refilling of bottles since it would unduly reduce competition on the market for the refilling of gas bottles.[72] Importantly, the CJEU stated that a balance must be struck between, on the one hand, the legitimate interests of trademark proprietors and, on the other, the legitimate interests of purchasers of those bottles.[73]

The reasoning of the CJEU in the case of *Viking Gas* can be contrasted with the Swedish Supreme Court's (earlier) case *NJA 1988 s. 183*. The background of the case was similar to that of *Viking Gas*, i.e. also concerning the refilling of gas and subsequent re-labelling. The Swedish Supreme Court found that there had been an infringement due to the fact that consumers might be confused regarding the commercial origin of the refilled gas cylinders concerned. This illustrates a core difference between Swedish law traditionally and EU law—namely that Swedish trademark law traditionally has emphasised consumers' interests within trademark

[68] CJEU, case C-230/16, *Coty Germany GmbH v Parfümerie Akzente GmbH,* ECLI:EU:C:2017:941, pts 28-29.

[69] Ibid, pt 58.

[70] S. Arnerstål, Varumärkesanvändning, Norstedts juridik 2018, p. 80.

[71] CJEU, case C-46/10, *Viking Gas A/S v Kosan Gas A/S,* ECR 2011 I-6161.

[72] Ibid, pt 34.

[73] Ibid, pt 31.

law as a protection against misleading acts, whereas the EU law puts a larger emphasis on the overall functioning of the markets.[74]

The claimant in the Supreme Court case of *NJA 1988 s. 183* was SodaStream. In 2012, the District Court of Stockholm settled the case of *Soda-Club v Vikingsoda*[75] concerning a similar dispute also regarding the use of SodaStream's and its affiliated trademarks by third parties refilling gas cylinders. The cylinders bearing SodaStream's trademarks were included in the package when buying a SodaStream machine. Along with the cylinders, there was a user certificate stating that each provided cylinder is subject to a user license and thus remains the property of the claimant Soda-Club. Refills of the cylinders could be made by certified retailers in exchange for an empty cylinder. Vikingsoda had acquired a large quantity of cylinders, and the majority of those were labelled with the SodaStream trademark. Those cylinders were refilled and subsequently re-labelled using Vikingsoda's trademark instead. Soda-Club claimed that there had been an infringement of the SodaStream trademark since the cylinders were only licensed and not sold on the market (i.e. the doctrine of exhaustion did not apply), whereas Vikingsoda claimed, inter alia, that the trademark had been exhausted and that the re-labelling was necessitated in order to challenge Soda-Club's dominant position on the relevant market.

The District Court of Stockholm held that the alleged license with consumers entered into by the act of buying a SodaStream machine could not be deemed legally enforceable. Therefore, the trademark right had been exhausted through the selling of SodaStream machines with the concerned cylinders included. Nevertheless, the court found that there had been an infringement in relation to the re-labelling of the cylinders done by Vikingsoda due to the exclusive labelling right of Soda-Club. Moreover, the District Court of Stockholm assessed the relationship between IPR and competition law. The court found in this regard that the holding of IPR single-handedly cannot give rise to a dominant position in a market. Derived from the CJEU's case law, the court stressed a restrictive approach towards allowing competition law to interfere with the exercising of IPR. The court held that competition law may only intervene when IPR results in a protection that reaches beyond what can be deemed necessary to uphold the legitimate interests protected by the rights concerned. If the exclusive rights of intellectual property are used by proprietors holding a dominant position, it is only through the actions of the company, and not the holding of the right itself, that can warrant the intervention of competition law. In the court's reasoning, an example of abuse of a dominant position could be to initiate proceedings against a competitor without substantial ground or in a 'harassing manner', to register a trademark in bad faith, or to deliberately disclose misleading information in order to acquire or enjoy IPR.

Noteworthy, the defendant Vikingsoda lodged a complaint with the Swedish Competition Authority parallel to the proceedings in the Stockholm District Court

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[74] S. Arnerstål, Varumärkesanvändning, Norstedts juridik 2018, p. 185.

[75] Judgement of the Stockholm District Court of 15 June 2012, reference T 17919-09, *Soda-Club BV v Vikingsoda AB*.

regarding abuse of dominant position by Soda-Club. Partly because the proceedings were ongoing, the authority did not pursue any action. The authority emphasised in its decision the similar above-mentioned CJEU case of *Viking Gas*[76] and the need to strike a fair balance between the legitimate rights of the trademark proprietors and the public interest for fair competition.[77] In the authors' opinion, the court did not sufficiently emphasise this aspect raised by the Swedish Competition Authority and did not sufficiently balance any consumer rights against the rights of the proprietors. One can accordingly question if the judgment of the Stockholm District Court is fully compliant with EU law since no assessment of a fair balance being struck was disclosed in the judgment, other than stating that the conduct of SodaStream was not an abuse of a dominant position. Traditionally, the Swedish legal tradition has largely left the assessments of proportionality and competing interests to the legislators, and such assessment has therefore mainly been accounted for in the legislative process. Courts' assessments have accordingly not emphasised the functioning of the principles behind the law to the extent common in many other jurisdictions, in favour of merely applying the law *de lege lata* in accordance with the disclosed assessments within the legislative process. However, largely due to the heavy influx of European law (including the inevitable merging of national legal traditions thereof), the discretion awarded to Swedish courts is increasing significantly. Hopefully, the Swedish courts will only become more confident—perhaps even audacious—in terms of balancing competing interests.

### 24.3.8 Consumer Protection: Product Liability, Repairs and Warranties

According to 6 section Product Liability Act (1992:18), product liability may be imposed on the producer, importer, and anyone who has marketed the product by labelling the product with his or her name or trademark. Any contractual provision disavowing the liability is considered defective.[78] As to product liability, there are no explicit provisions covering repairs, unlicensed updates, or 'breaking of seals'. However, product liability may only arise if there is a safety deficiency in accordance with 3 section Product Liability Act (note that the Product Liability Act and Swedish version of Directive 85/374/EEC[79] use the term 'safety deficiency', in Swedish *säkerhetsbris*t, as opposed to the English version of Directive, which uses the term 'defect'). The assessment as to whether there is a safety deficiency at hand shall take

[76]CJEU, case C-46/10, *Viking Gas A/S v Kosan Gas A/S,* ECR 2011 I-6161.

[77]Decision of the Swedish Competition Authority of 2 March 2012, reference 632/2009.

[78]Product Liability Act (1992,18), 5 section.

[79]Council Directive 85/374 of 25 July 1985 on the approximation of the laws, regulations and administrative provisions of the Member States concerning liability for defective products, OJ 1985 L 210.

all relevant circumstances into consideration—such as how the product reasonably is to be used, how it has been marketed, instructions and other relevant conditions.[80]

Product liability may be rejected if the defendant can show that the safety deficiency at hand did not exist at the time when the product left the defendant's possession.[81] In effect, the defendant cannot reasonably be held liable for damages due to the use of products contrary to the instructions and damages caused by unauthorised repairs. Moreover, the distinction between first party and third party, in particular in respect of authorised service centres and similar, is yet to be conclusively settled in Swedish law. According to national supervisory authorities, there are uncertainties as to what implications exist in relation to product liability and repairs. In some cases, the liability is transferred from the producer to the party responsible for the repair. The administrative obligations that come with the product liability may be difficult for small independent repair centres to comply with.[82] From the consumers' perspective, it would indeed be favourable if the liability of repairer could be equalled to the liability of producers.[83] More Swedish case law clarifying this issue would indeed be desirable.

Warranties may extend the liability of a producer in accordance with general Swedish tort law.[84] In case a producer intends to limit the liability in the warranty, it is naturally possible to do so to a larger extent according to Swedish tort law, as compared to product liability which is statutorily defined. Moreover, there is no explicit right to repairs, and the issue has been acknowledged, inter alia, in a governmental inquiry on the advancement of the circular economy. The inquiry stated that it is common in the IT sector to limit access to codes, instructions, and similar and to only permit access to authorised parties.[85] Notwithstanding, the inquiry did not make any suggestions for amendments to the current legislation in this regard. The inquiry held that any changes in the legislation in relation to product liability would suitably be made on an EU level, given the apparent risk of obstructing the free movement of goods if national provisions were to deviate from the rest of the EU/EEA.[86] Such risk is apparent, given that the freedom of movement of goods is a fundamental pillar of the EU's primary legislation, hence not possible to deviate from in the national law of the Member States.

[80] J. Hellner and M. Radetzki, Skadeståndsrätt, 9th ed, Norstedts juridik 2014, pp. 292–293.

[81] Product Liability Act (1992:18), 8 section.

[82] SOU 2017:22. Från värdekedja till värdecykel – så får Sverige en mer cirkulär ekonomi, pp. 181–182.

[83] B. Dufwa, Produktansvar, FSAB:s Förlag 1975, p. 38.

[84] J. Hellner and M. Radetzki, Skadeståndsrätt, 9th ed, Norstedts juridik 2014, p. 301.

[85] SOU 2017:22. Från värdekedja till värdecykel – så får Sverige en mer cirkulär ekonomi, p. 181.

[86] Ibid, p. 146.

## 24.4 On the Topic of Digital Copyright

Copyright in the digital environment is largely harmonised in the EU/EEA. Given the importance of the doctrine of exhaustion in the functioning of markets, one example of harmonisation efforts is the provision covering exhaustion of copyright. In 19 section Act on Copyright in Literary and Artistic Works (1960:729), the following is stated:

> When a copy of a work has been transferred, with the consent of its author, within the European Economic Area, that copy may be further distributed.

A transfer of *a copy of a work* as a requirement for exhaustion has given rise to difficulties in European digital copyright law. The transfer of 'a copy' of a work has traditionally in Swedish copyright law been defined as only encompassing the transfer of a *physical copy*.[87] This solution has not been suitable in terms of computer programs that nowadays are mainly distributed digitally. The CJEU has in the case of *UsedSoft*[88] settled that it does not matter with regard to exhaustion if a computer program is distributed online or offline with the consent of the right holder. However, this only applies to computer programs protected under the Computer Programs Directive.[89] If a computer program is protected under the InfoSoc Directive[90] (as it might be in accordance with CJEU's case of *Nintendo*[91]), only the distribution of physical copies can result in exhaustion.[92] Therefore, an intricate issue with digital copyright is that exhaustion as a rule can only occur with the transfer of copies of the work and not the work itself, i.e. only encompassing the transfer of physical copies. Accordingly, right holders can control the distribution of digital goods protected by copyrights to a larger extent than physical goods, given that the copyright-protected work at hand does not fall under the scope of application of the Computer Programs Directive.

Another effect of the work falling under the scope of the Computer Programs Directive is that, in accordance with Article 5(3) (implemented in Swedish law by 26 g section Act on Copyright in Literary and Artistic Works), lawful users have a

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[87] Judgment of the Swedish Supreme Court of 15 June 2000, reference NJA 2000 s. 292, *Riksåklagaren v TO*.

[88] CJEU, case C-128/11, *UsedSoft GmbH v Oracle International Corp.,* ECLI:EU:C:2012:407.

[89] Directive 2009/24 of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs, OJ 2009 L 111/16.

[90] Directive 2001/29 of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ 2001 L 167/10.

[91] CJEU, case C-355/12, *Nintendo Co. Ltd and Others v PC Box Srl and 9Net Srl,* ECLI:EU:C:2014:25, pt 23.

[92] Directive 2001/29 of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ 2001 L 167/10, Recitals 28-29. Also see CJEU, case C-419/13, *Art & Allposters International BV v Stichting Pictoright,* ECLI:EU:C:2015:27, pts 35-37.

far-reaching right to observe, study, or test the function of the program in order to ascertain the ideas and principles that lie behind the various details of the program. This means that there can be no infringement at hand when a lawful user, without having access to the source code of the protected computer program, studies, observes, or tests the program in order to reproduce its functionality in a second program.[93] Therefore, at least the design recovery phase of reverse engineering is always allowed in terms of computer programs in EU copyright law. Additionally, decompilation—in accordance with Article 6 Computer Program Directive—is allowed for users (1) who are lawfully using the protected computer program (2) in order to achieve interoperability with other computer programs (3) if the information required to achieve that cannot easily be accessed elsewhere and (4) only to the extent necessary to achieve interoperability. The right to decompilation does not enable competitors to experiment with others' software in order to develop new ones.[94] This can be contrasted with the right of experimentation in Swedish patent law, which allows anyone—including competitors—to experiment with a patented work in order to develop the invention.[95] At the end of the day, whether or not there is infringement in terms of reverse engineering will ultimately be a question of providing sufficient evidence. Since providing evidence in these matters may be difficult, the efficiency of the legal protection offered to right holders can definitely be questioned. Nevertheless, one can furthermore question what compelling reasons may justify having a more generous approach to reverse engineering in patent protection than to copyright in computer programs, especially since the duration of protection of copyright is significantly longer than for patents.

Another phenomenon in the digital environment giving rise to legal issues is the concept of geo-blocking, i.e. restricting access to certain works or websites based on the location of the user. The issue of geo-blocking is not covered in Swedish legislation, nor has it been the subject matter of any ruling in a Swedish court. Nevertheless, the Swedish Competition Authority held in a report covering the issue of competition and the growth of digital markets that geo-blocking in principle is in violation of the market freedoms of the EU/EEA.[96] Furthermore, by virtue of the European Digital Single Market initiative, a new regulation entered into force in 2018 with the objective of preventing unjustified geo-blocking and other forms of discrimination based, directly or indirectly, on nationality, place of residence, or place of establishment.[97] Consequently, geo-blocking within the EU/EEA is today prohibited in certain aspects.

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[93] CJEU, case C-406/10, *SAS Institute Inc. v World Programming Ltd,* ECLI:EU:C:2012:259, pt 61.

[94] S. Wolk, Datorprogramalster i upphovsrätten, Iustus 2016, p. 137.

[95] Patent Act (1967:837), 3 section 3(3) para.

[96] Report of the Swedish Competition Authority, 2017:2, Konkurrens och tillväxt på digitala marknader, p. 61.

[97] Regulation 2018/302 of the European Parliament and of the Council of 28 February 2018 on addressing unjustified geo-blocking and other forms of discrimination based on customers'

## 24.5 Some Prospective Outlooks

The EU has a heavy influence on the topics touched in this chapter. As the project of market integration in the EU/EEA continues, the level of harmonisation is ever rising. Nevertheless, something not covered in EU law is rules on legal ownership, which is very important in relation to the doctrine of exhaustion. That is because exhaustion is essentially dependent on the transfer of ownership of goods. In this regard, it can be discussed to what extent it is possible to circumvent exhaustion with leasing agreements and similar legal set-ups. This is an issue that is still covered by the national laws of the European Member States. The legal forms of transfers of ownership are likewise important in the digital environment—not only in terms of copyright, as discussed above, but also with regard to all forms of IPR. Since the digital markets essentially are turning global, reasons for globally uniform rules on exhaustion are moreover increasingly justifiable. Similarly, consumer protection is today to a high level harmonised in the EU/EEA but not on a global level. Consumer protection might indeed be one of the remaining components needed to achieve a seamless global digital market. Plus, as platforms truly become global, some are also evolving into titans within their markets, e.g. Amazon. As platforms for online distribution rapidly grow, the law will accordingly need to be attentive in order to maintain fair competition and to incentivise the overall proper functioning of the markets. In this regard, it is worth mentioning that large online distribution platforms, for instance, might be, through their distribution systems, able to promote their own brands against competitors' products. Another consequence of certain distribution platforms becoming titans is that the contractual provisions they impose to a larger extent effectively will govern the protection of brands—perhaps even more so than intellectual property law traditionally has. In this regard, there is an inherent risk of diminishing the equality of arms when large distribution platforms have the ability to unfairly direct the use of brands. Naturally, the EU—largely controlling the legislation on these issues—must stay vigilant to maintain the fair balance of the competing interest of the different stakeholders in these intricate matters—even more so in the growing digital environment.

nationality, place of residence or place of establishment within the internal market and amending Regulations 2006/2004 and 2017/2394 and Directive 2009/22, OJ 2018 LI 60/1, Article 1(1).

# Switzerland 25

Pierre Kobel

## 25.1 Introduction

The Internet is causing profound changes in the way commercial channels operate. Nevertheless, notoriety, recognition and anything that serves to catch the attention of the public remain of paramount importance. Trendsetters and influencers have not yet replaced advertisements and brands; the advent of digital works, virtual contents, virtual brands, and electronic games has not replaced goods, works, books, movies, theatre plays; they just add up, leading to a multiplicity of situations and desirable legal solutions with one key common denominator: grabbing and maintaining attention, an expensive investment in itself. In this world saturated with information, advertisements and images, the question of the protection of investments is as relevant as ever.

Surprisingly, this question is not currently causing debate in Switzerland among the legal practitioners and scholars. All seem to be satisfied with the current state of play and the consequences of the principle of international exhaustion applicable to trademarks and copyrights. All seem to enjoy the promise of bargains offered by digital platforms such as Amazon, eBay, to cite the most important only, which currently operate in Switzerland without restriction from IP right owners as far as parallel trade of original goods is concerned.

In reality, the issue of exhaustion remains a difficult one. Parallel imports are a question of economics, as well as the issue whether and to what extent certain investments must be protected because they are economically desirable. Whether

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P. Këllezi et al. (eds.), *Liability for Antitrust Law Infringements & Protection of IP Rights in Distribution*, LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, https://doi.org/10.1007/978-3-030-17550-4_25

intellectual property laws do provide for exhaustion and the rights impacted by such exhaustion is a legal issue. The nexus between these questions and the frequent recourse to intellectual property rights to protect certain investments actually lead to inconsistent legal reasoning, mixing economic, legal and political arguments with plain value judgments.[1] In retrospect, it appears that, in the absence of satisfactory empirical economic analysis, this type of reasoning is not capable of producing a meaningful argument in favour of or against international/national exhaustion.

That legal reasoning about the exhaustion of trademarks and patents, emerged out of the confrontations of different views, interests and ideas at a certain moment in the recent history of Switzerland, that is in the context of an ongoing debate about Switzerland's ambition to join the European Economic Area, which failed on 6 December 1992, and the closing of the Uruguay round of negotiations leading to the creation of the World Trade Organization on the 1st of January 1995. Various stakeholders were involved in this debate: the industry, the Swiss competition commission, consumers' associations, the Swiss Secretariat for the Economy and a number of scholars active in competition law, intellectual property law and international trade law. Except for the Swiss competition commission and a few but influential specialists in international trade law, which clearly favoured international exhaustion for all IP rights, most of the stakeholders had no clear position on the question.

This complex debate remained within a narrow circle of elites, although the possible consequences on jobs, if any, should be of general concern.[2] Only one issue of general interest was highlighted at the time and is still repetitively referred to nowadays: the high level of prices in Switzerland.[3] Rapidly and lastingly, usage of intellectual property rights to restrict imports into Switzerland and territorial restrictions often introduced in distribution agreements were fingered as the cause for the persisting high prices in Switzerland.

## 25.2 Exhaustion of Intellectual Property Rights in Switzerland

### 25.2.1 A Critical Time in the 1990s

Year 1992 was a busy year in Switzerland in relation to intellectual property and international trade law. With a view to preparing for the ratification of the European Economic Area Treaty, Switzerland passed a new Trademark Act on 28 August

[1]For a good example of how half-baked values get in the legal debate, see the Swiss Supreme Court decision in Dior of March 24, 1988, ATF 114 II 91, c. 5a p. 104: 'The fact that this can lead to a loss of prestige for the manufacturer and his selected specialist dealers for luxury articles, in particular because of the so-called "snob effect", is a consequence of the relative protection and does not justify the charge of unfairness for that very reason' (our translation).

[2]Unions never got very actively involved in this debate, perhaps because they sensed that high prices might be part of full employment and relatively high pay. The main motive is that parallel imports are not a workers' issue, but rather an additional benefit for the more affluent.

[3]That motto nowadays justifies a number of questionable motions and proposals in the Swiss parliament.

1992[4] and a new Copyright Act on 9 October 1992.[5] The Copyright Act contained a neutral provision on exhaustion of copyrights, i.e. a provision that did not specify the geographical scope of the exhaustion principle, whilst the Trademark Act was simply silent on the issue.[6] Had Switzerland joined the European Economic Area (hereafter the EEA) as planned, all exclusive intellectual property rights registered in Switzerland would have been subject to a principle of regional exhaustion covering the European Union and the members of the EEA as a result of the taking over of the existing European legislation and case law.[7] That would have also impacted the Patent Act, which did not at the time contain any provision on exhaustion either.[8]

Because the EEA was rejected by the people, the issue crept up in court and our Swiss Supreme Court has had to fill up these false loopholes. It did so in the context of a policy initiated by the Federal government to systematically align new legislation with the laws of the European Community on the one hand and the successful closing of the Uruguay round leading to questions as to the legitimacy of non-tariff impediments to trade and the compatibility of regional agreements on exhaustion of IP rights with the most favoured nations principles contained in the GATT Agreement on the other hand.

### 25.2.2 Exhaustion of Trademarks

The idea that trademark law mainly performs a distinction function, that is a function limited to the designation of the source of goods, was and remains prominent in the Swiss jurisprudence pertaining to trademark exhaustion. As a result, in the early jurisprudence of the Swiss Supreme Court based on national exhaustion, producers could not oppose parallel imports of their own products as long as consumers could

[4]Federal Act on Trademark Protection dated August 28, 1992, RS 232.11, which entered into force on April 1, 1993 (hereafter the ‘Trademark Act’ or ‘TA’).

[5]Federal Act on Copyright dated October 9, 1992, RS 231.1, which entered into force on July 1, 1993, (hereafter the ‘Copyright Act’ or ‘CA’).

[6]Article 12 para 1 CA: Where the author has transferred the rights to a copy of a work or has consented to such a transfer, these rights may subsequently be further transferred or the copy otherwise distributed.

[7]First Council Directive 89/104 of 21 December 1988 to approximate the laws of the Member States relating to trademarks OJ 1988 L 40, p. 1, Article 7 para 1; and the ECJ decisions based on Article 36 of the Treaty of Rome, ECJ, case 78/70, *Deutsche Grammophon GmbH/Metro SB-Grossmärkte & Co KG*, ECR 1971, 487; ECJ, case 192/73, *Van Zuylen Frères/HAG*, ECR 1974, 731; ECJ, case 15/74,*Centrafarm BV und Adriaan De Peijper/Sterling Drug Inc.*, ECR 1974 1147; ECJ, case 16/74, *Centrafarm BV/Winthrop BV*, ECR 1974 1183; ECJ, case 144/81, *Keurkoop BV/Nancy Kean Gifts BV*, ECR 1982 2853 (designs), ECJ, case 19/84, *Pharmon BV/Hoechst AG*, ECR 1985 p. 2281; ECJ, case 35/87, *Thetford Corporation and Another/Fiamma SpA and others*, ECR 1988 3585 (patents).

[8]Federal Act on Patents for Invention dated June 25, 1954, RS 232.14, which entered into force on January 1st, 1956 (hereafter the ‘Patent Act’ or ‘PA’).

not be deceived as to the origin of the goods.[9] If, however, Swiss consumers saw the trademark as having essentially a Swiss origin or designating a Swiss source, then a likelihood of confusion as to the source was admitted, and the owner of the Swiss trademark could take action against a parallelist. In short and in spite of the national exhaustion principle, as long as there was no likelihood of confusion, a trademark could not be used to oppose parallel trade. As we will see later, such narrow view of the functions performed by trademarks also negatively impacted the applicability of unfair competition principles in the defence of selective distribution systems.

This is an interesting aspect of the issue because, as pointed out by Perret, trademarks cannot actually exhaust: a trademark is not a new creation on which exclusivity rights would be conferred to the creator but only a right to apply such mark on certain products with a view to distinguishing and differentiating them from other similar products on the market. The product itself is not subject to any exclusivity, only the mark.[10] Moreover, from owner to owner, the identification function performed by the mark remains for as long as the trademark is not removed from the product. Exclusivity applies to the sign and not the product, contrary to copyrights or patents. In other words, exhaustion is of no use and relevance in relation to trademark.

Nevertheless, little after the entry into force of the Trademark Act and the rejection of the EEA Treaty in 1992, the issue of parallel imports of trademarked products was framed as pertaining to the exhaustion of the trademarks.[11]

The difference between the Trademark Act and the previous law on the protection of trademark was the absence of direct reference in Article 3 para 1 lit a) TA to the said distinction function. The notorious perfume manufacturer Chanel thus took the view that the scope of a trademark's functions had become broader, allowing it to prohibit parallel imports. A number of contributions on the Trademark Act were published, some favouring recourse to the new Trademark Act to oppose parallel imports and others advocating international exhaustion to allow parallel imports. The Swiss Supreme Court found that the Swiss legislator, when adopting the TA, had actually no intention to challenge the previous jurisprudence and to prevent parallel trade.[12] Therefore, an interpretation of the trademark's functions supporting a national exhaustion regime could not stand. According to the Swiss Supreme Court, the purpose of the Trademark Act is not different from the previous law, in the sense that the main function of a trademark consists in identifying and

[9]ATF 86 II 277 dated October 4, 1960, *Philips AG vs. Radio-Import GmbH*, c. 3g; ATF 105 II 49 dated January 25, 1979, *Bosshard Partners Intertrading AG vs. Sunlight AG (OMO)*, c. 1b), p. 53.

[10]F. Perret, Quelques observations sur l'épuisement des droits de propriété intellectuelle: l'arrêt Chanel du Tribunal fédéral du 23 octobre 1996, RSDIE 2/97 p. 267, 288–289.

[11]ATF 122 III 469 dated October 23, 1996, *Chanel SA Genève and Chanel SA vs. EPA AG (Chanel I)*.

[12]ATF 122 III 469, c. 5d) p. 477.

differentiating the products and services of one undertaking from those of other undertakings.[13] Other functions, such as a guarantee of quality or advertisement and marketing, are simply not protected.[14] A trademark cannot be used to protect such functions and should not be an instrument allowing manufacturers to control distribution.[15] Exhaustion of a trademark under the Trademark Act thus became international.

The same narrow view of trademark functions led the Swiss Supreme Court to hold in a 2000 decision that the trademark owner could not use its trademark to oppose advertisements published by a parallelist in a daily paper and bearing a slightly modified representation of the manufacturer's trademark.[16] Parallelists are thus allowed to use the original trademark without license or other authorisation from the owner, to the extent necessary for the further trading of the products and only to that extent. It also led the Swiss Supreme Court to allow, on the basis of the exhaustion principle, a third party to use a cooperative's trademark displayed on vouchers offered to its members in exchange for the use of certain services performed by the cooperative for its own members. That decision was made despite the fact that the third party was using the trademark to advertise its own services consisting in offering to buy the vouchers, a trade that was statutorily prohibited to the members of the cooperative.[17] It even led to a decision, acceptable and understandable in its outcome but dogmatically incorrect, inspired from the ECJ decision in the *BMW* case,[18] to allow a mechanic to use and display on its garage an AUDI electric signpost after the termination of a distribution agreement by AUDI, to advertise its specialist repair services.[19]

[13] ATF 122 III 469, c. 5f, p. 479, 'The law thus protects the functions of distinction and indication of source of the mark' (our translation).

[14] The Swiss Supreme Court was here closing a door opened in its OMO jurisprudence, ATF 105 II 49.

[15] ATF 122 III 469, c. 5f), p. 479.

[16] Swiss Supreme Court unpublished decision 4C.354/1999 of January 12, 2000 (Chanel IV).

[17] ATF 126 III 322, dated July 20, 2000, *WIR Bank vs. Grill et alii*.

[18] ECJ, case C-63/97, *Bayerische Motorenwerke AG and BMW Nederland AG vs. Ronald Karel Deenik*, ECR 1999 I 905, pt. 56, expressly recognising that exhaustion cannot apply to a service, pt 56.

[19] ATF 128 III 146, dated January 30, 2002, *Volkswagen AG and Audi AG vs. Garage X AG*. Contrary to Article 6 para 1 lit. c of the First Trademark Directive, the Swiss Trademark Act does not contain such an exception under which the use of a trademark to offer a service could find a justification (see First Council Directive 89/104 of 21 December 1998 to approximate the laws of the Member States relating to trade marks, OJ 1989 L 40, p. 1).

### 25.2.3 Exhaustion of Copyrights

#### 25.2.3.1 International Exhaustion

Unlike trademarks and patents, copyrights are not registered rights. Copyright protection exists per se without registration or formal ex ante recognition by the State where the protection is sought.

In Switzerland, that difference inspired the Swiss Supreme Court to reject any analogy with patent law that would lead to a national exhaustion and to apply the principle of international exhaustion to copyrights.[20] In answer to the post EEA policy of alignment with EU law, the Swiss Supreme Court took the counterintuitive (and perhaps naïve) view that European regional exhaustion was not simply national exhaustion applied on a larger economic area but was to the contrary the expression of an opening of the markets.[21] Because national exhaustion was not what the Swiss legislator had in mind when adopting the Copyright Act, international exhaustion was the appropriate solution.[22]

Exhaustion of copyright applies to distribution rights, not to reproduction, communication and diffusion. Contractual attempts to limit the effects of exhaustion only have *inter partes* consequences.[23] As a result, they cannot be used as grounds to file suit against third parties. Between the parties, any contractual restriction that aims at restricting or limiting exhaustion towards third parties would be held invalid.[24]

Because copyright applies to works of very different nature, the principle of exhaustion is applied differently:

– Parallel imports of videotapes and DVDs remain prohibited during first performance right.[25] As soon as this right of performance ends, parallel imports are authorised.

[20] ATF 124 III 321 *Imprafot AG vs Nintendo Co Ltd and Waldmeier AG* decided two years after the Chanel I case on trademarks. The case pertained to the non-authorised import and sale into Switzerland by a parallelist of the video game 'Donkey Kong Land' against the exclusive rights that Nintendo Co. Ltd had granted to its Swiss distributor.

[21] 'In other words, the aim is first and foremost to open the market to other European countries and not to marginalize third countries. On the other hand, national exhaustion is likely to foreclose the Swiss market for copyrighted products, especially with regard to European trading partners. But that would be contrary to what the law-maker wanted', c. 2b), p. 326 (our translation).

[22] As a matter of fact, that conclusion was largely facilitated by the fact that the previous copyright act was based on the principle of international exhaustion; Article 58 para 1 of the previous copyright act.

[23] ATF 124 III 321, c. 3, p. 334, 'Contractual restrictions on transferred distribution rights can therefore justify contractual obligations to the contracting party. They cannot be opposed to third parties to limit exhaustion' (our translation).

[24] ATF 124 III 321, c. 3, p. 334.

[25] Article 12 para 1bis CA: 'Copies of audio-visual works may not be further transferred or rented as long as the author is thereby impaired in exercising his right of performance (Article 10 para. 2 let. c).' CR PI-Philippin, Article 12 CA, N. 26 et seq.

– With respect to computer programs, exhaustion applies on sales of any tangible media embodying the software.[26] However, rental rights of computer software remain an exclusive right stemming from the copyright itself, therefore preventing further rental by the transferee.[27]
– Online distribution of copies of works should not fall under the principle of exhaustion of copyrights because it belongs to the right to communicate in the meaning of Article 6 of the WIPO Copyright Treaty and does not constitute distribution.[28] As an exception to that principle, the Court of Zug considered that the transfer of a computer program for an unlimited period of time in consideration for a one-time payment, qualified as a transfer, thereby triggering exhaustion despite all contractual provisions to the contrary.[29]

As a result, owners of copyrights on online distributed works who wish to avoid exhaustion would be well advised to grant rights for a limited duration only, subject to renewal and payment of additional fees.

In our view, applying exhaustion to the dissemination of copies of digital works possibly leading to the creation of unlimited copies of the works is not compatible with the initial recognition of copyright on such works, simply because it undermines the right of the original owner to further 'sell' its work.

#### 25.2.3.2 Contractual and Other Limitations to Exhaustion

Digital rights management (DRM) functionalities, programs or devices may be used by copyright owners but only to prevent unlawful use of copyrighted works.[30] DRMs cannot be used to introduce limitations to the lawful use of copyrighted

[26]Article 12 para 2 CA: 'Where the author has transferred the rights to a computer program or has consented to such transfer, such a program may subsequently be used or further transferred.' CR PI-Cherpillod, Article 10 CA, N. 51.

[27]Article 10 para 3 CA: 'The author of a computer program also has the exclusive rental right.'

[28]A. Alberini, Online Exhaustion of IP Rights, Switzerland, in Kilpatrick, Kobel, Këllezi (eds.), LIDC Contributions on Antitrust Law, Intellectual Property and Unfair Competition, Springer, 2016, p. 633 et seq., 638–644.

[29]Ibidem, p. 639. Sic! 2/2012, p. 99 et seq., 101, an outcome supported by several scholars in Switzerland.

[30]Article 39a CA: '1. Effective technological measures for the protection of works and other protected subject-matter may not be circumvented.

2. Effective technological measures in accordance with paragraph 1 means technologies and devices such as access control, copy control, encryption, scrambling and other modification mechanisms that are intended and suitable for preventing or limiting the unauthorised use of works and other subject-matter.

3. It is unlawful to manufacture, import, offer, transfer or otherwise distribute, rent, give for use, and advertise or possess for commercial purposes devices, products or components, or provide services which:

a. are the subject-matter of sales promotion, advertising or marketing with the goal of circumventing effective technological measures;

b. have only a limited commercially significant purpose or use other than the circumvention of effective technological measures;

works.[31] An Office for the Monitoring of Technological Measures was created within the Swiss Institute on Intellectual Property to manage the conflicting interests of manufacturers and users.[32] Anyone who suspects that a technological measure may impede an authorised use of a copyrighted work may report such restriction to the OTM.[33] The OTM will seek to find a mutually agreeable solution to both parties.

### 25.2.4 Exhaustion of Patents

Contrary to copyrights and trademarks, the geographic scope of exhaustion applicable to Swiss patent law was in the end not decided by the Swiss Supreme Court but defined in the Patent Act itself.

Although the initial absence of legal definition of the geographic scope of patent exhaustion was quite comparable to the Trademark Act and the Copyright Act, the Swiss Supreme Court adopted in a 1999 decision[34] a more cautious approach in relation to patents, considering that the situation of patents differed from trademarks and copyrights because the identification function of trademarks is not altered by parallel imports[35] and because the exclusivity embodied in copyrights is more limited in scope.[36] The Swiss Supreme Court considered that national exhaustion of patent was the prevailing principle internationally.[37] As a result and considering the opposing interests of manufacturers, handlers and consumers, the Swiss Supreme Court found that it was not part of its remit to determine what the desirable and objectively adequate solution should be and thus could not unilaterally

c. are primarily designed, manufactured, adapted or performed for the purpose of enabling or facilitating the circumvention of effective technological measures.

4. The ban on circumvention may not be enforced against those persons who undertake the circumvention exclusively for legally permitted uses.'

[31] Federal Council Message Regarding the Approval of two WIPO Conventions and a Modification of the Copyright Act, FF 2006, p. 3263, 3297: 'Thus, authors and owners cannot prohibit lawful uses even if they involve circumvention of technical measures' (our translation).

[32] Article 39b CA, https://www.ige.ch/en/protecting-your-ip/copyright/monitoring-office.html.

[33] Public reports are available online on the few interventions of OTM since creation in 2008: https://www.ige.ch/fr/proteger-votre-pi/droit-dauteur/observatoire-des-mesures-techniques/observatoire-des-mesures-techniques-avant-2018/resultats-des-examens-conduits-par-lomet/examens-conduits-doffice.html.

[34] ATF 126 III 129, *Kodak SA vs. Jumbo-Markt AG*, confirming its previous jurisprudence. The case pertained to Kodak SA's attempt to prevent imports of Kodak Gold films and dispensable Gold cameras on the basis of a European patent with extension covering Switzerland.

[35] A rationale which to our view is quite arguable. If the identification function of a trademark is not affected, why then should exhaustion be international. The answer lies only in the economics or politics and not because of the nature of the right at stake.

[36] In copyright the exclusive right granted to the author only covers the appearance whilst in patent, the exclusivity granted to the inventor is more essential ('existentielle' in German in the text of the decision), see FN 36 above, c. 6c.

[37] ATF 126 III 129, c. 7.

decide for an international exhaustion.[38] Moreover, because of the monopolistic rights granted to the patent holder—so believed the Swiss Supreme Court—it deemed antitrust law and in particular art. 7 para 2 lit. c) CartA applicable each time a patent owner abuses its rights, for instance when it tries to unduly isolate the Swiss market in order to reap excessive prices, provided the economic development of the exporting country and Switzerland are comparable.[39] As a result, exhaustion of patents could remain national only.

Politically, that decision did not bring the expected relief, and the Swiss 'high price island' motto led to repeated questions and motions in the Parliament, followed by reports from the Swiss Government. A bill was finally proposed confirming a national exhaustion of patents with one exception in relation to items protected by several intellectual property rights (for example, trademark and patent), when the role of the claimed patent appeared subordinate as compared to the protection resulting from the other rights when considering the functional characteristics of the imported goods.[40]

This bill did not give satisfaction to the Swiss Parliament, which decided to go beyond the recommendations of the Swiss Government to adopt a regional exhaustion covering the European Economic Area[41] despite the demonstration in various studies commissioned by the Swiss Government that the potential for price reduction

[38]FN 39 above, c. 8 dd).

[39]FN 39 above, c. 9 a), b).

[40]Federal Council Message dated 23 November 2005, regarding the amendment of the Patent Law and the federal decree approving the Treaty on the Law of Patents and the Regulations, FF 2006 1, 110 et seq. and for the proposed text, FF 2006 147. An exception accepted by the Swiss Parliament, FF 2007 4363.

[41]Article 9a PatA: '1. If the proprietor of the patent has placed patent-protected goods on the market in Switzerland or within the European Economic Area, or consented to their placing on the market in Switzerland or within the European Economic Area, these goods may be imported and used or resold commercially in Switzerland.

2. If he has placed apparatus that can be used with a patent-protected process on the market in Switzerland or within the European Economic Area, or consented to its placing on the market in Switzerland or within the European Economic Area, the first and each subsequent person who acquires the apparatus is entitled to use this process.

3. If the proprietor of the patent has placed patent-protected biological material on the market in Switzerland or within the European Economic Area, or consented to its placing on the market in Switzerland or within the European Economic Area, this material may be imported and propagated in Switzerland, provided this is necessary for its intended use. The material so obtained may not be used for further propagation. Article 35*a* remains reserved.

4. If the proprietor of the patent has placed patent-protected goods on the market outside the European Economic Area or consented to their placing on the market outside the European Economic Area and if the patent protection for the functional characteristics of the goods is only of subordinate importance, the goods may be imported commercially. Subordinate importance is presumed unless the proprietor of the patent provides *prima facie* evidence to the contrary.

5. Irrespective of the provisions of paragraphs 1-4, the consent of the proprietor of the patent for the placing on the market of patent-protected goods is reserved if their price in Switzerland or in the country in which they are placed on the market is fixed by the state.'

of a regional extension was marginal, if not negligible, as compared to a national exhaustion.[42]

It maintained the exception in relation to multiple protection when the patent protection is of a subordinate importance as compared to the functional characteristics of the goods in Article 9a para 4 PatA, a subordination that is now presumed, shifting the burden of evidence on the manufacturer. The idea is that a patent of a lesser importance should not become an instrument in the hands of manufacturers to restrict parallel imports that would otherwise be allowed under the international exhaustion regime applicable to copyrights or trademarks (so-called multiple protection).

Most surprisingly, the PatA contains an exception to exhaustion in relation to pharmaceuticals—traditionally more expensive in Switzerland than in most EU countries, not to mention the rest of the world (United States and Japan excepted)—when their price in Switzerland or in the country where they were first marketed is regulated by the state.[43] The provision was nicknamed 'pharma privilege' because its purpose was not to avoid taking unfair advantage of subsidies abroad but to avoid a 'distortion of competition' on the Swiss market.[44] The other way around, another arguable privilege was introduced in the PatA for the benefit of Swiss farmers, instituting an international exhaustion for all patented 'aids to production or agricultural capital goods'.[45]

Because the effect of exhaustion depends on the interpretation of what constitutes a triggering event (transfer of property/possession, sale, etc.), it is worth mentioning the opinion of Zuberbühler, who suggests to follow the solution adopted by the German Bundesgerichtshof under which goods handed over to a transporter in the EEA and contracted by the purchaser for transportation outside of the EEA are held

[42]See 3rd report by the Swiss Government: Parallel Imports and Patent Law, Regional exhaustion, a Report by the Swiss Federal Council dated December 2004, p. 10. Also see the 2002 report, Parallel Imports and Patent Law a Report by the Swiss Federal Council dated November 2002, p. 5 and 39, stating that international exhaustion would lead to a growth of the gross domestic product between 0.0% and 0.1%. The main perceived advantage of regional exhaustion over international exhaustion was the absence of detrimental effects on less developed nations in relation to pharmaceuticals.

[43]See FN 42 above, Article 9 para 5 PatA, fixed by the State referring to prices set forth by State entity or other agency or entity empowered to do so.

[44]OB 2008, 696: 'But we have that for now and these prices are fixed. The case of Greece is also rightly mentioned, I understand. If the Greeks - the Greek government, the Greek Minister of Health - fix any prices and then buy them into the market and subsequently export those goods to other countries which are then imported into Switzerland, then you can really argue whether it is acceptable that goods may come from a market where there is no competition at all. In such case, the pharmaceutical industry must accept prices which have nothing to do with market prices' (our translation).

OB 2008, 757: 'The situation is different when it comes to goods whose prices are determined not by the market but by the state. Here, an exception is justified, since it is not the producers who can fix prices and in particular parallel importers would benefit from parallel imports' (our translation).

[45]Article 27b of the Federal Act on Agriculture of April 29, 1998, OR 910.1.

to have been placed on the market in the EEA, thereby triggering exhaustion.[46] In our view, this approach seems quite formalistic and therefore questionable. Zuberbühler also suggests that the burden of proof be reversed when the parallelist is facing an organised distribution network because the traditional burden on the parallelist would otherwise force it to reveal its source, i.e. the identity of the distributor that broke its contractual obligations.

This opinion is a good example of the general tendency among scholars in Switzerland to favour interpretations that secure the widest exhaustion. Generally, scholars deem that all contractual restrictions regarding the time, venue or quantities placed on the market are ineffective to prevent or restrict exhaustion. They may only have a contractual *inter partes* effect, provided that this is compatible with antitrust laws.[47] In our view, given the fact that exhaustion is expressly labelled as an exception to patents in the PatA,[48] this trend in the Swiss doctrine favouring wider interpretations of the applicable regional exhaustion is quite arguable, in particular when considering the lack of supporting empirical economics.

### 25.2.5 Exhaustion of Design Rights

The Design Protection Act does not contain any provision on exhaustion of designs, and the question was never put in court.[49] After stating that the Swiss Supreme Court had arguably decided that copyright and trademark laws were subject to an international exhaustion and that the Swiss Parliament had substantially altered the principle of national exhaustion in relation to patents, one author suggests that international exhaustion should apply but adds that scholars are divided on this.[50] The question is thus open.

### 25.2.6 Exhaustion of Variety Protection

The principle of exhaustion is not defined in the Variety Protection Act. But as a result of the obligation to construe Federal laws in line with Switzerland's

[46]German Bundesgerichtshof decision dated 27.4.2006 ZR 162/03 'ex works', referred to by I. Zuberbühler, Das Patentrechtliche Erschöpfungsregime in Article 9a PatG und Article 278 LwG, sic! 1 2013, p. 3 et seq., p. 6.

[47]I. Zuberbühler I. Zuberbühler, Das Patentrechtliche Erschöpfungsregime in Article 9a PatG und Article 278 LwG, sic! 1 2013, and references, p. 7.

[48]The title to Article 9a PatA is 'Exceptions to effects of the patent'.

[49]Federal Act on the Protection of Designs of October 5, 2001 (hereafter 'DesA'), OR 232.12.

[50]CR PI-Cherpillod, Article 9 DesA, N. 23.

international obligations, the current geographic scope of exhaustion seems to be prescribed by Article 16 (1) of the International Union for the Protection of New Varieties of Plants (UPOV) and remains national.[51]

## 25.3 Parallel Imports and Swiss Antitrust

To protect their investments, IP owners and/or their authorised distributors may be tempted to further restrict the rights of (authorised) distributors to gain more control over the products and their activities with a view to limiting intra-brand competition from other channels. This option seems quite a 'no go' under Swiss law.

### 25.3.1 Swiss Antitrust and Intellectual Property

The Swiss Cartel Act in relation to intellectual property by and large follows the usual principle and divides between conducts that pertain to the intellectual property rights and that are not subject to antitrust scrutiny and others that are related to the exercise of the intellectual property right and that may be subject to antitrust control.[52] The second sentence introduced in Article 3 para 2 CartA in the wake of the above-discussed Kodak patent decision was aimed at the effects of IP rights consisting in import restrictions. The idea was to prevent any excessive use of the legal privilege granted by patents and other IP rights.[53] In practice, this addition did not change anything with regard to the scope of antitrust intervention. In particular, that sentence has not been and cannot be construed as imposing a principle of international exhaustion generally.[54]

Although there are several unresolved issues about the delimitation between what is covered by IP rights protection and what is not, the prevailing understanding of Article 3 para 2 CartA is that only restrictions that are exclusively caused by intellectual rights can fall outside the scope of the CartA.[55] The view defended by

[51] Article 16 para 1, excerpt: 'The breeder's right shall not extend to acts concerning any material of the protected variety, or of a variety covered by the provisions of Article 14(5), which has been sold or otherwise marketed by the breeder or with his consent in the territory of the Contracting Party concerned, or any material derived from the said material', RS 0.232.161, International Union for the Protection of New Varieties of Plants (UPOV) dated December 2, 1961, in its state on July 1, 1981.

[52] Federal Act on Cartels and Other Restraints of Competition dated October 6, 1994, RS 251, (hereafter the Cartel Act or 'CartA'), Art 3 para 2: 'This Act does not apply to effects on competition that result exclusively from the legislation governing intellectual property. However, import restrictions based on intellectual property rights shall be assessed under this Act.'

[53] 'Overriding legal power' (our translation), ATF 126 III 129, c. 9b.

[54] S. Venturi, Propriété intellectuelle et révision de la loi sur les cartels: les importations parallèles sous la loupe, in Walter Stoffel, Roger Zäch, Kartellgesetzrevision 2003, Neuerungen und Folgen, Schulthess, 2004, p. 215, 232.

[55] DPC 2016/4 Sport im Pay-TV p. 921, c. 334 p. 959; CR PI-Alberini, Article 3 II N. 48 et seq.

the Swiss Competition Commission (hereafter COMCO) based on a contribution by Hilty is that although IP law always implies a restriction on competition, there is barely any restriction that finds its origin exclusively in IP law[56]; there is always a combination between an IP right and a contractual right or obligation, and therefore all restrictions that are stipulated in contracts are falling under the CartA.[57] The most recent approach suggested by COMCO, not yet upheld by the Swiss Supreme Court, is that IP rights should simply be considered as one circumstance in the material examination of whether or not a restraint is owed to the intellectual property or not, and if yes to which extent.[58] Article 3 para 2 CartA would thus be construed not as a real exception to the material scope of the Cartel Act but as an element to be considered in analysing the restraint under the CartA.

In our view, considering that the Swiss CartA is essentially looking at intra-brand competition in relation to vertical restraints and has little consideration for the effects of restraints, such an intellectually appealing approach is unlikely to lead to a real assessment of what actually caused a restraint and in which proportion.[59]

### 25.3.2 The Swiss Rules on Vertical Restraints

The Swiss CartA as currently construed by the Swiss Supreme Court leads to a complete ban of any contractual restrictions pertaining to prices or territories.[60] Indeed, Article 5 para 4 of the CartA provides that vertical agreements containing provisions the content of which pertain to price fixing or minimum prices or to the allocation of territories are always illegal and subject to sanctions even where there is

[56]DPC 2016/4 c. 334 p. 959; Evaluationsgruppe Kartellgesetz, Studien zu Einzelbestimmungen (Article 3 Abs. 2 KG), para 11. DPC 2006/3 p. 433 (Thalidomid) c. 29: 'According to the restrictive interpretation of Article 3 (2) CartA and the prevailing opinion, "only intellectual property legislation" means only competitive effects which are based on the actions of the holder of the intellectual property right arising from the respective intellectual property right. Any contractual extension of absolute protection rights falls within the scope of the antitrust law as an additional restriction of competition' (our translation). See also CR PI-Alberini, Article 3 II N. 59 et seq.

[57]DPC 2013/4, Judgement B-506/2010 of the Swiss Federal Administrative Court in the case of Colgate Palmolive (Gaba), c. 3.4, p. 76: 'The competition effects in question in the present case do not arise directly from the intellectual property legislation, but from the license agreement of 1 February 1982. Therefore, as stated by the lower court and not disputed by the appellant, it is also subject to antitrust scrutiny under Article 3 CartA' (our translation).

[58]DPC 2011/1 p. 96 et seq., c. 110 p. 112, SIX Terminals: 'The majority of the scholars nowadays consider Article 3 (2) CartA as obsolete and advocates that due consideration be given to the intellectual property aspects in the context of the substantive examination under Articles 5 and 7 CartA' (our translation). See also c. 109, p. 112, the approach is based on an alleged symbiotic relationship between IP and antitrust.

[59]As evidenced by the Swiss Supreme Court Decision ATF 143 II 297, GABA, of June 28, 2016, published on April 21, 2017.

[60]See GABA *ibidem*.

competition.[61] The reason is that such kind of agreements are by nature deemed to always significantly restrict competition[62] unless they find an economic justification, a rather theoretical proposition in view of the absolute prohibition on such restraints.[63]

In relation to online trade, we understand the Swiss Guidelines on vertical restraints (hereafter CommVert) and the Explanatory Note on the CommVert[64] to mean that restrictions to passive sales to certain online clients (i.e. prohibition of online sales to certain distributors) do not fall into Article 5 para 4 CartA and therefore are not subject to sanctions, unless other 'qualified circumstances' are present. Such restrictions are nevertheless considered to be significant and therefore unlawful under Article 5 para 1 CartA because they are deemed 'qualitatively serious'.[65] We understand 'qualified circumstances' to mean any specification that comes in addition to the said prohibition. For instance, when a prohibition of Internet sales is tied to price recommendations or price agreements, threats, warnings, sanctions, etc., the said prohibition of Internet sales is likely to be construed as price fixing (RPM).[66] When a prohibition of Internet sales is tied to stipulations restricting the usage of the distributor's website for clients situated outside of its territory or redirecting such clients to the manufacturer or to another distributor or purporting to automatically interrupt an online transaction when the credit card shows an address outside of the distributor's territory, then the prohibition of Internet sales could be considered as an absolute territorial restriction.[67] As far as luxury goods are concerned and further to the *Coty* case, the COMCO introduced a narrow exception in its Explanatory Note on the CommVert to stipulate that a prohibition from visibly using third-party platforms imposed on members of a selective distribution network for luxury goods operating at a retail level of trade and primarily designed to preserve the luxury image of those goods is not qualitatively significant and therefore not unlawful in the meaning of Article 5 para 1 Cart A.[68]

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[61] ATF 143 II 297, c. 5.2.5, p. 318.

[62] N. Birkhäuser, A. Stanchieri, Das Urteil des Bundesgerichts in Sachen Gaba, Jusletter September 11, 2017, N. 5; P. Kobel, Concurrences Review, No3-2017, Article No 84641 pp. 174–176 (Chroniques, Jurisprudences européennes et étrangères); P. Kobel, Un arrêt très attendu en droit des cartels: La décision du Tribunal fédéral dans l'affaire Gaba, Jusletter, June 19, 2017.

[63] N. Birkhäuser, A. Stanchieri, Das Urteil des Bundesgerichts in Sachen Gaba, Jusletter September 11, 2017, N. 6.

[64] Communication regarding the assessment of vertical agreements, decided by the Competition Commission on June 28, 2010 in its state on May 22, 2017 (hereafter 'CommVert').

[65] Article 12 para 2 b) CommVert; Para 9 and 21 of the Explanatory Note.

[66] DPC 2011/3, 381 et seq., N. 71, Behinderung des Online-Handels, Para 18, 19 Explanatory Note.

[67] DPC 2011/3, 381 et seq., N. 74, Behinderung des Online-Handels, Article 12 para 2 b) CommVert, Para 18, 20 Explanatory Note. On the CommVert and the Explanatory Note, see P. Kobel, Communication sur les accords verticaux-Lignes directrices de la ComCo, Concurrences No 3-2017; A. Graber Cardinaux, Die Aktualisierte Vertikalbekanntmachung 2010 und ihre Erläuterungen im Lichte des Gaba-Urteils des Bundesgerichts, sic!10/2017, p. 579 et seq.

[68] These restrictions do not constitute a restriction of customers, within the meaning of Article 12 para 2 lit. b CommVert (Regulation 330/2010, Article 4(b)), or a restriction of passive sales to

More fundamentally, one may wonder whether the dogmatic approach of the Swiss Supreme Court in the GABA decision and, as a consequence, of the CommVert, is compatible with the reasoning followed by the ECJ as to which Article 101(1) TFEU must be interpreted as meaning that a selective distribution system for luxury goods primarily designed to preserve the luxury image of those goods complies with that provision to the extent that resellers are chosen on the basis of objective criteria of a qualitative nature that are laid down uniformly for all potential resellers and applied in a non-discriminatory fashion and that the criteria laid down do not go beyond what is necessary.[69]

## 25.4 Parallel Imports and Unfair Competition

### 25.4.1 Protection of Distribution Networks?

Generally, the violation of IP-related or distribution-related contractual restrictions imposed on distributors cannot be enforced against parallelists even where such restrictions are perfectly lawful from an antitrust perspective.[70] It is only in the presence of specific circumstances worth protecting that an infringement of contractual rights ('relative rights') may constitute an unlawful act of unfair competition in the meaning of Article 2 of the Unfair Competition Act.[71] Removal of series numbers or other codes allowing some level of control does not constitute such circumstances as long as the alterations do not affect the quality of the goods or the manufacturer's interest to see the conditioning of the product unaltered.[72] Conversely, the maintaining of labels specifying that products can only be sold by authorised distributors when the goods are actually traded by parallelists or the absence of terms of use in relation to perfumes does not constitute such specific circumstances.[73]

The real question under the UCA is whether the behaviour at stake is functionally anticompetitive or not. This is to be assessed taking into consideration the outcome that one is entitled to expect in a system of functioning competition. Where

end users, within the meaning of Article 12 para 2 lit. c CommVert (Regulation 330/2010, Article 4 (c)); Explanatory Note issued by the Competition Commission pertaining to the Communication regarding the assessment of vertical agreements, dated June 12, 2017, in its state on April 9, 2018, para 24. A. Graber Cardinaux, Die Aktualisierte Vertikalbekanntmachung 2010 und ihre Erläuterungen im Lichte des Gaba-Urteils des Bundesgerichts, sic!10/2017, p. 579 et seq, p. 587.

[69] CJEU, case C-230/16, *Coty Germany GmbH vs. Parfümerie Akzente GmbH*, ECLI:EU:C:2017:941, pt 36.

[70] Trademarks: ATF 122 III 469, c. 7, p. 482 et seq., ATF 114 II 91 c. 4b p. 101 et seq. Copyrights: ATF 124 III 321, c. 4 p. 334 et seq.

[71] Act against Unfair Competition dated December 19, 1986, RS 241 (hereafter 'the Unfair Competition Act' or 'UCA').

[72] ATF 122 III 469, c. 7 p. 482, c. 10 p. 485.

[73] Ibidem.

competition itself or the expected and legitimate outcomes of competition are threatened, a specific behaviour may be held to be anticompetitive within the meaning of Article 1 UCA.[74] Unfortunately, the Swiss Supreme Court's understanding of the requirements of a functioning competition in relation to distribution may be quite simplistic and often not in line with the realities of the market. For instance, the Swiss Supreme Court held in Chanel I that selective distribution systems did not seek to sell as many trademarked goods and for the best possible price, thus showing that such systems of tight selective distributions are not desirable in the perfume market.[75]

The persisting political trend to 'fight the high prices in Switzerland' and the tendency to ignore economic arguments are unfortunately comforting lower courts in a restrictive approach. We believe that such view should be challenged, an opinion that is motivated not by the desire to reach certain conclusions, i.e. that manufacturers and distributors should necessarily be allowed to counter parallel trade, but by the conviction that the current analytical framework or rather its absence under the UCA is unacceptable. The interpretation of so-called specific provisions of the UCA, such as Article 5 lit. c regarding the reproduction by technical means of a third party's work and Article 3 lit e) UCA regarding comparative advertising, should be reconsidered in light of the evolution of the CartA, the newly adopted combined application of such specific provisions with the so-called general clause contained in Article 2 of the Unfair Competition Act[76] and the growing importance of parallel trade via the Internet. For instance, investments in marketing and personnel, which manufacturers and distributors are compelled to do and to maintain overtime to support the image of certain trademarked goods, is a work that ought to be considered under Article 5 lit. c UCA[77]; the parasitic behaviour consisting in taking advantage of the reputation of branded and often luxury products without incurring the necessary investments to create and maintain demand

[74] ATF 122 III 469, c. 9a: 'According to the functional approach, the distinction between fair and unfair competition must take into account the results that are expected in a system where competition works well. Thus, an act of competition becomes unfair when it jeopardizes the competition as such or when it foils the results expected by said competition' (our translation).

[75] ATF 122 III 469, c. 10b): 'The notion of prestige to which large perfumers like Chanel are attached implies relatively high prices and retail presentations of a certain standard in necessarily limited numbers. The selective distribution system therefore does not tend to sell branded products in the largest number of outlets and at the best possible price (...). On the contrary, thanks to parallel imports, luxury perfumes are more easily accessible to a larger number of consumers. It is doubtful therefore that a sealed selective distribution system is desirable in the field of perfumery from the point of view of market policy' (our translation).

[76] ATF 135 III 446, c. 6.1, 6.6 and 7, a combined application which invites liberties with the strict conditions posed in the specific provisions of the UCA such as Article 3 lit. e UCA and 5 lit c UCA.

[77] Article 5 lit. c UCA: 'Is acting unfairly the one who adopts without corresponding sacrifice, using technical reproduction means, the work product of a third party which is ready for marketing, and offers it without change'; Article 5 lit. b UCA: 'Is acting unfairly the one who takes advantage of the work of a third party such as offers, calculations, drawings, although he/she knows such work to have been handed over to him/her or made accessible, unduly' (our translation).

in such products, thereby securing disproportionate profits for the parallelist, ought to be considered under Article 3 lit. e) UCA.[78] Irrespective of such provisions, the general clause set forth in Article 2 UCA should apply as part of a comprehensive analysis of the economics of distribution networks and the profits made by parallelists using platforms or other cost-insignificant means to reach consumers.

Recently, the Higher Court of the Canton Fribourg made a decision that departs from the previous jurisprudence of the Swiss Supreme Court, which did consider lawful the poaching of real estate advertisements from one real estate site to another using a spider (a program that crawls the web and feeds from information found on others' websites).[79] The Cantonal Court held that the technical evolution of spiders and their availability at extremely low cost justified the finding that the respondent had infringed Article 5 lit. c UCA when poaching on the claimant's advertisements.[80] This is an interesting precedent, however arguable, considering the current approach of all courts in relation to parallel trade in general. In substance, it is indeed hard to reconcile this decision, which allows one party that voluntarily makes its data freely available on the web to obtain protection against the use of such data by a competitor, with the current jurisprudence, which refuses the same type of protection to manufacturers of luxury items whose products are offered online by a parallelist that takes advantage of a breach of the selective distribution network set up by the manufacturer and re-sells the distributed goods without incurring comparable costs.[81] Either the absence of comparable investments and costs by a parallelist should lead to the application of the UCA to protect manufacturers and authorised distributors in all circumstances or the evolution of online trade in general results in Article 5 lit c UCA being irrelevant, in which case protection should be rejected at all times. In our view, the functional aim of the Unfair Competition Act and the principle of equivalence recognised in antitrust require that situations regarding digital and tangible goods should find consistent solutions.[82]

[78] Art 3 lit. e UCA: 'Is acting unfairly, the one who compares in an inaccurate, fallacious, uselessly offending or parasitic manner, its person, goods, works, services or prices with those of a competitor or who through such comparisons favours third parties against their competitors' (our translation). A provision that was applied in relation to similar packaging under the idea of exploitation of the reputation ('Rufausbeutung') and which currently is only applied to the name, label, packaging and conditioning of products, ATF 135 III 446, c. 7.1. Our suggestion is to argue that what is compared is the service consisting in offering the goods for sale.

[79] ATF 131 III 384 (Such Spider).

[80] Decision by the Cantonal Court of Fribourg dated August 22, 2016 and partly published in sic ! 4/2017, p. 228 et seq. One specific element which does not appear in the published excerpts is that after the filing of the claim, the respondent unilaterally renounced to the poaching of data from the claimant's web site and then failed to provide a defence leading to a default judgment.

[81] Unpublished decision by the Geneva Court of Justice dated March 10, 2017, ACJC/275/2017.

[82] In substance, the Unfair Competition Act does not protect the provision of services or benefits itself but the fairness of the practices at stake, ATF 131 III 384 (Such Spider), where the Swiss Supreme Court stated in relation to the general clause in c. 5.2: 'However, parasitic competition is unfair because one lets a competitor work for himself who then uses his power to immediately reach a successful outcome' (our translation).

### 25.4.2 Protection of Users

In relation to trade in digital goods and over the Internet, transfer of rights and eligibility to use is governed by standard or general terms and conditions that come with the product (shrink wrap licences) or that the user must tick or accept before downloading. General principles of contract law authorise unexperienced users to challenge unusual terms contained in such terms and conditions, in which case such clauses are simply without effect.[83] Unusual refers not to the balance of rights and obligations between the parties but to whether or not the challenged terms have contents that are unusual with respect to the subject matter of the agreement.[84] Under the UCA, consumers are also eligible to question terms and conditions set forth by the producer in case of unjustified serious imbalance between the rights and obligations of the parties that is incompatible with good faith (Article 8 UCA). Although that provision was modified in 2011 to facilitate its application, we are not aware of any court case applying that provision.[85] The absence of enforcement practice led several scholars to suggest that Swiss courts should refer to the list of abusive clauses contained in the Annex to the Directive on unfair terms in consumer contracts.[86] Currently, one can conclude that the ability of producers to introduce terms meant to secure more control over the distribution of their products or services, is hardly hampered by consumers' rights.[87]

[83]Swiss Supreme Court decision dated January 22, 2015, 9C_540/2014, c. 4.1: 'The party who incorporates general conditions in his contract must indeed expect his inexperienced contractual partner not to adhere to an unusual clause, i.e. a clause which substantially modifies the nature of the contract or that significantly comes out of the usual legal framework for such type of contract". Such clauses are thus without effect, see ATF 133 III 607, c. 2.2 p. 610. CR LCD-Pichonnaz, Article 8, L. Bieri, Le contrôle judiciaire des conditions générales- Réflexions sur le nouvel article 8 LCD, in F. Bohnet, (ed), Le nouveau droit des conditions générales et pratiques commerciales déloyales, CEMAJ, 2012, p. 48 et seq.

[84]Swiss Supreme Court decision dated July 15, 2014, 4A_475/2013, c. 5.1: 'However, the unusual rule applies only if, in addition to the subjective presumption of absence of industry experience, the clause objectively assessed has a content which is unusual with respect to the type of transaction' (our translation).

[85]Except for a Supreme Court case regarding the transitional provisions ATF 140 III 404.

[86]Council Directive 93/13 of 5 April 1993 on unfair terms in consumer contracts, OJ 1993 L 95, p. 29. See Y. Benhamou, L. Tran, Circulation des biens numériques: de la commercialisation à la portabilité, sic! 11/2016, p. 571, 581; CR LCD-Pichonnaz, Article 8 N. 152; contra, N. Kuonen, Le contrôle des conditions générales: l'envol manqué du phénix, SJ 2014 II p. 3.

[87]However, such terms cannot defeat exhaustion, see p. 5–6 above.

## 25.5 Economics of Exhaustion and Parallel Trade

Originally, the theory of exhaustion conceived by Joseph Kohler in the first years of the twentieth century was to be applied to patents.[88] The purpose was to balance the interests of the owner of the IP right and the right to property of the owner of the physical goods. The rights of the first had to be limited in order to allow the owner of the good to freely dispose of its property. The modus operandi was to assume that once the patented product had been sold, the owner of the patent received its fair consideration for its invention. Because the IP owner can be paid only once for its contribution, the intellectual property right is held to be exhausted as soon as a product is placed on the market. This theory was then extended to all intellectual property rights.

Graz showed that none of the legal justification to the principle of exhaustion—that it be the transfer of property, the implied licence, the horizontal purpose of IP trademarks or the first circulation—is actually justified and standing on its own.[89] Under the transfer of property theory, for example, the author of a book never actually possesses the distributed books themselves. It is only if and when the author retains some control over the retail price that one can fairly say that the author obtains a fair return for its IP contribution. The implicit licence recognised in the countries of common law tradition by which the owner of the IP right is authorizing the purchaser to dispose of the good does not deal with the questions why such implicit licence could not be replaced by an explicit licence under which rights are not relinquished to the purchaser and how a contractual limitation could cause the end (the exhaustion) of an absolute IP right.

When balancing the rights of the IP owner and the property rights of the purchaser, the law is actually trying to reflect economic imperatives mixed with some idea(l) of fairness when the issue is essentially a question of economics. It should therefore be examined first from the point of view of the economic agent considering the production and launching of a new product or service.

A manufacturer will first analyse demand and then elaborate an offer that matches the stated demand. It means analysing the needs and preferences of consumers or purchasers to identify the market segment where to market the product.[90] The offer must then match the positioning of the product on the identified market. This means that the shape, look and feel of the product; its price, conditioning, distribution; and the related communication must also match the targeted market. This particularly applies to differentiated products that have to project an image corresponding to the

[88] J. Kohler, Handbuch des deutschen Patentrechts, Mannheim 1900, p. 455, referred to by D. Graz, Propriété intellectuelle et libre circulation des marchandises, Droz, Geneva, 1988, p. 62, and F. Perret, Quelques observations sur l'épuisement des droits de propriété intellectuelle: l'arrêt Chanel du Tribunal fédéral du 23 octobre 1996, RSDIE 2/97 p. 267, p.281.

[89] D. Graz, Propriété intellectuelle et libre circulation des marchandises, Droz, Geneva, 1988, p. 63 et seq., in particular 67.

[90] On these questions, see J. Xoudis, Les accords de distribution au regard du droit de la concurrence, Schulthess, 2002, p. 9 et seq.

expectation of consumers. This image is conditioned by various components such as the aura of the product, its attributed value, its exclusive character, its price. Unlike undifferentiated products, which mainly compete on prices and for market share, leading to mass distribution, competition regarding differentiated products has focussed on the values attributed to such product, which in no circumstances can be 'cheap'. In relation to highly differentiated goods, investments by manufacturers and retailers in the product's image is often more substantial than the manufacturing cost of the product itself.[91] As a result, the price is driven not by costs but by demand, that is the willingness and ability of the relevant customers to pay for the offered good.

In that context, price discrimination allows a manufacturer to adjust prices for countries with lower purchasing power, thereby expanding its cost base whilst continuing to reap profits in higher income countries. Actually, geographical discrimination and moreover geographical discrimination based on national boarders is probably not the most desirable kind of price discrimination because it is imprecise in identifying different demand curves. Discrimination between states is thus only a proxy for a subtler segmentation of the market, geographical or societal. In a free economy based on private ownership of production means, price discrimination is not unfair or unethical.[92] It is one way for manufacturers to make products available to a larger base without compromising a defined strategy and profits.

The natural consequence of price discrimination is parallel trade, which is an attempt by a reseller to take advantage of the opportunity created by price differences.

In relation to online competition, the free-rider theory of restricted distribution becomes much more accurate. Without restrictions in distribution, brick-and-mortar stores fail to capture the full marginal value of their investment in either image or information. Buyers remain influenced in their demand by the brand image that has been built up by retailer and manufacturer investments when they purchase online. With respect to both information and image, the failure of physical stores to capture their full investment means that they will provide less of it in the future or simply be discouraged from carrying the product at all and demand will suffer.[93] Also, under the theory of consumers' heterogeneous preferences, manufacturers have an interest in avoiding that online retailers attract price-driven consumers away from other retailers by the use of low-price Internet channels.

Economics therefore support some level of *laissez-faire* towards distribution restraints as long as the resulting restrictions do not aid collusion upstream or downstream and increase mostly non-price factors that support consumers' demand.

[91]E. Iacobucci, R. A. Winter, European Law on Selective Distribution and Internet Sales: An Economic Perspective, Antitrust Law Journal, Vol. 81 Issue 1, 2016, p 47 et seq., 52.

[92]See NERA Report on the Economic Consequences of the Choice of Regime of Exhaustion in the Area of Trademarks, Executive Summary, dated 8 February 1999, p. 5, http://ec.europa.eu/internal_market/indprop/docs/tm/summary_en.pdf.

[93]Ibidem, p. 53.

Price discrimination is a reality of economics that applies to all products, whether protected by IP rights or not. It is only that IP rights are one possible way to legally enforce geographic price discrimination. For stakeholders, the issue is not so much the protection of IP rights but the protection of their investments and their ability to recoup such investments. In normative terms, it is an issue of parasitism or free riding and whether it should be tolerated or even fostered for the sake of possible price advantages to the consumers or not.

This shows first that intellectual property should not be associated to the definition of parallel trade.[94] That association often made by scholars is actually argumentative as it assumes that the IP is the cause of the restriction and therefore legitimises the solution advocated by the same authors, which consists in rejecting national exhaustion.

The main argument raised in the debate over the scope of exhaustion of intellectual property is the claim that parallel trade is beneficial to consumers: competition from parallel imports should force manufacturers and distributors to lower prices.[95] The argument is so obvious that it seems hard to rebut. Nevertheless, empirical research in support of that claim is scarce if not practically inexistent.[96] In reality, a change in exhaustion regime from national to international exhaustion may lead to short-term price decrease,[97] but it is more likely to induce fundamental and unidentified changes in the strategies followed by manufacturers.[98] In Switzerland, the Federal Council noticed that 6 years after the decision confirming the international exhaustion of trademarks, price levels are still higher in Switzerland than in the European Union.[99] As far as patents are concerned, the Swiss Federal Council stated in 2000 that patents had no contribution or a very minor contribution in the markets

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[94] As many authors do for instance, U. Nordmann-Zimmermann, Importations parallèles et droit des marques, in Conflit entre importations parallèles et propriété intellectuelle, Comparativa, Droz, 1996, p. 11, M. Bieri-Gut, Parallelimport und Immaterialgüterrechte nach schweizerischen Spezialgesetzen und dem Recht der EU, AJP/PJA 5/96, p. 559, 560.; In Switzerland that definition was inspired by a decision made by the Commerce Court of Saint Gallen on June 29, 1994, RSPI 1995 I p. 127. A plain and more correct definition was provided by the Swiss Federal Government in its Report of June 22, 2016 regarding Impediments to Parallel Import, p. 5, 'parallel imports means imports of goods bypassing the distribution structure planned or organized by the manufacturer' (our translation).

[95] See NERA Report, Executive Summary p. 7: 'The economic case for extending to international exhaustion is simply stated and rests on the proposition that this will deliver lower prices to consumers.'

[96] N. Petit, The Economics of Parallel Trade: Iconoclast Views on a Dogma of EU Competition Law, in Inge Govaere, Reinhard Quick, Marco Bronckers Ed., Trade and Competition Law in the EU and Beyond, EE, Cheltenham, 2011, p. 332 et seq.

[97] However, even in sectors where parallel trade may be expected as a result of the introduction of international exhaustion, the positive impact on prices estimated by NERA remain quite low. See NERA Report, Executive Summary Exhibit 1.

[98] NERA Report p. 11.

[99] Third Report of the Swiss Federal Council, Parallel Import and Patent Law: Regional exhaustion, a Report by the Federal Council dated December 3, 2004, p. 28.

where the highest price differential between Switzerland and the EU could be stated.[100] Studies reported by Petit in relation to trade in pharmaceuticals did not show a clear impact on the prices of an expansion of exhaustion,[101] whilst those quoted by the Swiss Federal Council in its third report show price reductions in the EU as a result of parallel imports in pharmaceuticals between 0.3% and 2% (Study of the London School of Economics) and savings in Denmark and the United Kingdom of respectively 120 million euros and 342 million euros.[102]

Recently, in the United States, Hemel and Ouellette placed economics at the centre of the debate preceding the Supreme Court decision in the *Lexmark* case. They warned about the disruptive effect of an international exhaustion on less-developed economies and raised the question: who will benefit from parallel trade?[103] They demonstrated that a unilateral passage from national to international exhaustion in the field of patents was likely to cause prices to rise in low-income countries at the same time as they would decline in the US. They even show that the resulting welfare of US citizens was likely to suffer from a shift to international exhaustion. In Switzerland, the Federal Council estimated the gains of a passage from national to international exhaustion to remain between 0.0% and 0.1% of the GDP.[104]

As far as anticompetitive restraints are concerned, the Swiss Competition Commission has never conducted any ex-post analysis of the efficiency of its intervention in terms of price levels in the various inquiries conducted (cameras, books in French, perfumes or non-listed pharmaceuticals).

In our view, the case is not sufficiently clear to rest. It is quite likely that parallel imports do cause some level of intra-brand competition and hence some reduction in prices, and it is also likely that manufacturers probably know how to play with parallel trade.

In the case of Switzerland, as shown by the extended national exhaustion and as from 1996 the international exhaustion applicable to trademarks, the permanency of high price levels, is an indication that the cause for high prices is to be sought somewhere else than in legal restraints.

Last but not least, if the case for parallel trade is political, the issue may be to determine, particularly in relation to pharmaceuticals, in whose prejudice/advantage such a policy is introduced. In our view, the careful approach adopted by the Swiss

[100]First Report by the Swiss Federal Council, Parallel Import and Patent Law, a Report by the Federal Council dated May 8, 2000, pp. 11–13. P. 15: 'In particular, it is difficult to assess to what extent a change in favor of international exhaustion in the field of patent law in Switzerland would actually lead to lower prices' (our translation).

[101]See the studies quoted by N. Petit, above FN, p. 333 et seq.

[102]Third Report by the Swiss Federal Council, p. 10–11.

[103]D. J. Hemel, L. L. Ouellette, Trade and Trade-offs: The Case of International Exhaustion, Columbia Law Review Sidebar, Vol. 116, April 13, 2016, pp. 17–31.

[104]Second Report by the Swiss Federal Council, Parallel Imports and Patent Law, a Report by the Federal Council, November 2002, p. 5, 10 and 39.

Government in relation to the exhaustion of patents (to the exclusion of its protectionist twists) makes more sense than court decisions.

## 25.6 Introducing a WTO Regulation of Exhaustion?

Because parallel trade is inherently international, it is tempting to call international instruments and the WTO Agreement into play. All the more if one takes into consideration the fact that the TRIPS Agreement concluded in the course of the Marrakech round of negotiations introduced a minimum protection for IP rights without any corresponding definition of their limits,[105] a situation that triggered discontentment and contestation.

Currently, WTO does not regulate the issue of exhaustion. The question is left to the discretion of the Members. The wording of Article 6 TRIPS goes beyond a voluntary omission and clearly indicates that the question should not and cannot be a basis for a complaint, sanctions or compensation: '…nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights'. As a result, TRIPS certainly cannot be construed to mean that it requires international exhaustion.

The TRIPS Agreement is not about favouring intellectual property owners but is meant to promote the mutual advantage of producers and users of technological knowledge in a manner conducive to social and economic welfare and to a balance of rights and obligations (Article 7 TRIPS Agreement).[106] In that context, TRIPS allows Members States to take appropriate measures to prevent right holders from abusing intellectual property rights that unreasonably restrain trade.[107] They may stipulate in their legislation specific licensing practices that constitute an abuse of intellectual property and may have an adverse effect on competition.[108]

The freedom of WTO Members to regulate exhaustion of intellectual property is limited by the most favoured nation contained in the GATT and the TRIPS. The most-favoured-nation principle contained in GATT may be construed to run contrary to any unilateral measure, the adoption or modification of a statute, which would restrict the ability of trade partners to export to Switzerland. This would be the case if Switzerland decided to suddenly trade international exhaustion of trademark law for regional exhaustion, unless this was agreed as part of the joining of a custom

[105] D. E. Kraus, Les importations parallèles de produits brevets, CEJE, 2004, p. 107.

[106] Article 7 TRIPS: 'The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.'

[107] Article 8 para 2 TRIPS: 'Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.'

[108] Article 40 para 2 TRIPS.

union or a free-trade area. On the other hand, most favoured nation pertaining to TRIPS[109] runs against the lessening of intellectual property rights granted to certain countries.[110] That would be the case if Switzerland were to move from national exhaustion of certain IP rights to a regional or an international exhaustion. Still, that would be held to constitute a unilateral restriction of advantages but not a violation, i.e. a cancellation or impairment of an advantage directly resulting from TRIPS.[111]

In reality, the wording of Article 6 TRIPS shows that whatever national stance is taken on the matter of exhaustion, no complaint can be heard.[112] No matter how a country decides on exhaustion, it cannot be made subject to a proceeding under Article 64.1 TRIPS. Of course, this does not mean that in the framework of a dispute on a different matter, a preliminary question of exhaustion cannot be resolved by a panel.

Further, Article 2 TRIPS provides that Members shall comply with Article 10bis of the Paris Convention. Article 10 bis para 2 in particular provides that ‘any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition’. There is no specific provision in TRIPS that would limit the ability of the Members to have the provisions of their domestic law on unfair competition applied to parallelists that instigate, participate and take advantage in the violation by members of a distribution network of the contractual restrictions imposed on them.[113]

Last but not least, we find that the interpretation of Article XI GATT, which consists in considering that regulations limiting parallel trade based on intellectual property or unfair competition are equivalent to quantitative restrictions, is based on thin ice.[114] Only measures taken by a state can fall under the provisions of the GATT and, if taken by a private person, under instructions or with the direct involvement of state authorities. Such a provision should also be construed in relation to Article XX lit d) GATT, in which nothing in the GATT shall be construed to prevent the adoption or enforcement by any contracting party of measures necessary to secure compliance that are not inconsistent with the provisions of the GATT, including

[109] Article 4 TRIPS.

[110] D. E. Kraus, Les importations parallèles de produits brevets, CEJE, 2004, p. 115.

[111] Ibidem, p. 116–117.

[112] Ch. Heath, Parallel Imports and International Trade, p. 9 http://www.wipo.int/edocs/mdocs/sme/en/atrip_gva_99/atrip_gva_99_6.pdf.

[113] This is an aspect of the question of exhaustion that is insufficiently studied, probably because at the time of the closing of the Marrakesh round of negotiation and the beginning of the XXIst century, the main focus was on antitrust (for instance Kraus, ibidem, is not examining the question of unfair competition but mainly antitrust, pp. 152–158. Unfair competition is raised only as pArticle of Article XX d) exception to GATT, p. 196).

[114] Th. Cottier, M. Stucki, Paralleimporte Im Patent-, Uhrheber-, und Muster- und Modellrecht aus Europarechtlicher und Völkerrechtlicher Sicht, Comparativa, 1996, pp. 29 et seq., 51; Th. Cottier, R. Liechti-McKee, Die international Erschöpfung im Patentrecht, in Festschrift für Roland von Büren, Helbing, 2009, p. 325, 331, actually in very sketchy terms: ‘prohibition of parallel imports is a restriction akin to quantitative restrictions’.

those relating to the protection of patents, trademarks and copyrights and the prevention of deceptive practices.

Because it is not a legal issue but an open issue of economics pertaining to parallel trade, we believe that the introduction of legal principles governing the exhaustion of intellectual property rights as a whole in a multilateral international trade instruments would not be adequate. Instead of setting up one rule on the expiry of rights different in nature (patents, copyrights, trademarks, designs, etc.) and scope (software and digital goods in relation to copyrights), and the protection of which may substantially vary from country to country, priority should be given to further the harmonization of intellectual property rights, particularly in relation to patents. Taking that reality into consideration, we find the strong views expressed by international exhaustion advocates indeed quite dogmatic.[115]

Unfortunately, multilateral discussions regarding the harmonization of IP rights have become more difficult, as is any progress in multilateral trade issues and negotiations. In answer, certain countries have resorted to bilateral or limited free trade agreements containing detailed provisions, in line with the existing rules of international trade, covering competition law, the free electronic commerce of digital goods and intellectual property rights.[116] This evolution was often criticized for endangering the most-favoured-nation principle at the heart of GATT and WTO. Actually, in relation to parallel trade and its admission, it is probably more logical and less harmful to less-developed countries if the question of exhaustion of intellectual property rights is resolved within such bilateral or limited multilateral agreements between countries with a similar level of development.

[115] 'The doctrine of national or regional exhaustion is an outdated concept which no longer can be legitimately sustained whilst other areas of competition law are fully operating under different concepts of territoriality', Th. Cottier, The WTO System and Exhaustion of Rights, in F. Abbott, Th. Cottier, F. Gurry, The International Intellectual Property System: Commentary and Materials, PArticle two, Kluwer, 1999, p. 1796, 1804. See also D. E. Kraus, Les importations parallèles de produits brevets en Suisse: Ce qu'il faut, c'est moins de dogmatisme, sic! 12/2003, p. 945, 946.

[116] See Chapter 14 of the 2004 Free trade agreement between the USA and Australia in relation to competition law matters which adds up to the existing agreements on cooperation in antitrust, Chapter 16 for electronic commerce and 17 for intellectual property rights https://ustr.gov/sites/default/files/uploads/agreements/fta/australia/asset_upload_file148_5168.pdf In relation to copyrights, the FTA includes provisions restricting the right of importers to circumvent effective technological measures protecting performance rights and fighting removal of rights management information. Article 17.9 para 4 regarding patents reads as follows: 'Each Party shall provide that the exclusive right of the patent owner to prevent importation of a patented product, or a product that results from a patented process, without the consent of the patent owner shall not be limited by the sale or distribution of that product outside its territory, at least where the patentee has placed restrictions on importation by contract or other means.'

## 25.7 Conclusions

The above shows that manufacturers and authorised distributors in Switzerland can find little solace in court when confronted with parallel trading.

Most unsatisfactory are the motives and the reasoning, not necessarily the outcome. The present legal situation is grounded on decisions based on beliefs and value judgments. Prices are high and will remain high in Switzerland, and private restraints—whether it be intellectual property rights or restrictive contractual provisions—remain a convenient scape goat.

The lack of serious empirical evidence in relation to price discrimination and parallel imports actually prevents us from drawing conclusions as to the desirable law and the question whether Swiss law strikes a fair balance between the rights of manufacturers and consumers.

Price discrimination taking advantage of and possibly leading to higher prices in Switzerland as compared to other countries should not be considered as per se unjustified. The high level of prices in Switzerland is due not to intellectual property or commercial restraints but to a cascade of causes and effects starting with the exiguity of the territory and strict regulations on its use and exploitation leading to land prices substantially higher than any neighbouring countries. Price differentiation will effectively become economically unjustified, at least geographically, the day when the internationalisation of the economy will have reached such a level that standards of life will be comparable in all countries of the world.

Should Swiss law keep limiting trademarks to their distinctive function, an idea that is consistent with the fact that exclusivity inherent to a trademark is related to the sign and not the products, then international exhaustion was not a necessity and Swiss law could have maintained its traditional jurisprudence allowing parallel imports until and as long as there is no risk of confusion. Should one recognise, however, that trademarks do perform other functions, these functions should be protected by means of unfair competition. In particular, Swiss scholars and Swiss courts should dare to explore if and under what conditions parasitism—taking advantage of the initial and recurring investments made by manufacturers and/or distributors in the presentation of an offer that matches actual demand by reselling imported goods without incurring any comparable costs and investments but for a price lower than those practised by authorised distributors and thereby securing profits that in percentage points may be much higher than profits made by the manufacturer and/or the authorised distributors—should be found unfair under Article 2 UCA alone or in conjunction with Article 5 lit. c UCA.

Generally, Swiss law should be made more rigorous in its analysis of the consequences of certain conducts on the market. This applies to both the CartA and the UCA.