EU COMMISSION IMPOSES MORE FINES FOR CROSS-BORDER SALES RESTRICTIONS - THE HELLO KITTY CASE IS THE LATEST IN A SERIES OF CASES

Europe
Legal Briefings

On 9 July 2019 the EU Commission imposed a fine of €6.2 million on Japanese company Sanrio for restricting cross-border sales in the EU of its Hello Kitty merchandising products. In addition to direct sales the Hello Kitty products are distributed in Europe through licensed distributors, and Sanrio's merchandising agreements contained clauses that expressly restricted out-of-territory sales by the licensees. These contractual restrictions were reinforced through indirect measures, such as regular audits carried out by Sanrio and a refusal to renew licensing contracts for licensees who did not comply with the restrictions. This is the second infringement decision relating to cross-border sales restrictions in merchandising agreements in the last few months. A third investigation into Universal Studios' merchandising arrangements is ongoing. The cases are a strong reminder to brand owners that they should not exploit their intellectual property rights (IPRs) in such a way as to restrict cross-border sales of their goods in the EU in breach of the EU competition rules.

SPOTLIGHT ON MERCHANDISING AGREEMENTS

In 2017 the Commission opened three separate investigations into merchandising agreements, which combine the licensing of IPRs and distribution agreements. In addition to its investigation into Sanrio's practices it also investigated and fined Nike for restricting cross-border sales of merchandising products. An investigation into Universal Studio's restrictions on traders selling licensed merchandise is still ongoing.

Nike infringement decision

In March 2019 the Commission imposed fines on Nike for a similar breach of the EU competition rules. Nike was fined €12.5 million for banning traders from selling licensed merchandise outside their allocated territories. Licensees were also required to refer all requests for products from outside their territory to Nike and Nike would threaten licensees with termination or refusal to renew their licences if they sold outside their allocated territory. The Commission decision in the Nike case was published in June 2019 and provides further insight into the Commission's analysis of merchandising agreements.

Merchandising agreements are used as a tool to increase the attractiveness of a product or service. The IPRs most commonly used on merchandising products are trademarks, but other rights such as copyright and design rights may also be involved.

Nike typically grants a direct licence (over a club's IPRs) to a third party for the manufacture and sale of certain products bearing the IPRs, with the licence conditions typically included in the distribution agreement for the licensed products. In the Nike case the licences were granted on a non-exclusive basis, but restrictions on both active and passive cross-border sales of licensed merchandise were imposed, under the terms of the contracts and through indirect measures (such as threats by Nike of contract termination for out-of-territory sales, limitation of the number of security labels required by licensees in order to guarantee the official character of their products and audits to ensure compliance with out-of-territory restrictions).

The Commission makes it clear that these merchandising agreements are not different from normal distribution agreements and that the use of IPRs in these agreements cannot justify restrictions on cross-border sales imposed on the distributors. The Commission refers to the CJEU's early case law on distribution in the pharmaceutical sector confirming that a misuse of IPRs, such as IPRs aimed at partitioning the internal market, will amount to an infringement of the competition rules.

Nike's agreements prohibited both passive and active sales outside the allocated territory of the licensees. A restriction on passive sales will qualify as a hardcore restriction under EU competition rules. Restrictions on active sales are permitted but only in the context of an exclusive distribution agreement, where the exclusive distributor can be prevented from actively selling the contract goods into the territory exclusively allocated to another distributor. As Nike did not operate under an exclusive distribution system, the restriction on active sales was also a hardcore restriction.

Mixing EEA and non-EEA agreements in one template

It is worth noting that Nike's contracts were based on a 'multi-jurisdictional template agreement' with guidance notes that expressly provided that the out-of-territory restrictions should only be included in non-EEA agreements. This guidance was clearly ignored and highlights a potential risk with using this type of template agreement for both EEA and rest of the world agreements.

WIDER FOCUS ON VERTICAL AGREEMENTS

Following a period of limited enforcement of vertical restraints at EU level over the last decade the EU Commission is increasingly focusing its attention on vertical agreements. This is to some extent triggered by the rapid growth in e-commerce, which has led to old issues re-emerging in a new guise, but focus has not solely been on the online sector, and the recent investigations into merchandising agreements should be seen in this context.

In July 2018 the Commission imposed total fines of €111 million on consumer electronics manufacturers Asus, Denon & Marantz, Philips and Pioneer for imposing fixed or minimum resale prices on their online retailers, in breach of Article 101. The four manufacturers engaged in fixed or resale price maintenance by restricting the ability of their online retailers to set their own retail prices for widely used consumer electronic products. The use of sophisticated monitoring tools allowed the manufacturers to effectively track resale price setting in the distribution network and to intervene swiftly in case of price decreases.

In December last year the Commission fined clothing manufacturer Guess €40 million for restricting retailers from online advertising and selling cross-border to consumers in other Member States.

In May 2019 the Commission fined AB InBev €200 million for restricting cross-border sales of beer, under Article 102 TFEU on abuse of a dominant position. AB InBev changed the packaging of some of its Jupiler beer products supplied to retailers and wholesalers in the Netherlands in order to make these products harder to sell in Belgium. It also limited the volumes of Jupiler beer supplied to a wholesaler in the Netherlands, in order to restrict imports into Belgium.

COOPERATION IN NON-CARTEL CASES - A DE FACTO SETTLEMENT PROCEDURE

The fine imposed on Sanrio reflects a 40% reduction for cooperation and early settlement and fines in some of the other vertical infringement cases have also been reduced on the basis of cooperation by the parties (Guess received a 50% reduction in return for its cooperation, Nike's fine was reduced by 40% and in the consumer electronics cases fines were reduced by 40% and 50%).

Whereas there has long been an established and successful framework for rewarding cooperation by companies under investigation for cartel-type conduct (which includes leniency and settlements), the Commission has recently started to recognise that a similar scheme can be applied to non-cartel cases. The Commission published a 'Fact Sheet' on the framework for this type of cooperation, in the context of the Guess case, but has decided at this early stage not to publish more formal guidance, in order to allow greater flexibility in applying the framework in practice. The purpose of the Fact Sheet is to provide more clarity on the process, but makes it clear that each cooperation will need to be assessed on a case by case basis.

The cooperation framework will apply in cases where companies acknowledge their liability for the infringement, including the facts and their legal qualification. The level of fine reduction will be based on an overall assessment of the extent and timing of the cooperation and the procedural efficiencies gained in each case. Cooperation may also take place after the statement of objections has been issued, but at this later stage cooperation will generate less efficiency gains and less added value, which will be reflected in the level of fine reduction.

REVIEW OF VERTICAL AGREEMENTS BLOCK EXEMPTION REGULATION

The current vertical agreements block exemption Regulation (VABER) which exempts certain vertical agreements from the prohibition on anti-competitive agreements of Article 101(1) TFEU, provided the parties do not exceed certain market share thresholds and the agreement does not contain any of the hard core restrictions listed in the Regulation, is due to expire at the end of May 2022. The Commission has recently completed a first evaluation phase, obtaining views on whether the current rules should continue after that date, lapse or be amended in order to reflect market developments. The next phase of the consultation will involve a detailed impact assessment. A revised VABER (and guidelines) are expected to focus on the increased importance of online sales and online platforms, the Commission's approach to RPM, selective distribution, exclusive distribution and dual distribution by manufacturers, and will be informed by the recent vertical agreements investigations.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

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