’Consent’ In Relation To Curbs of Parallel Trade In Europe

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Abstract

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INTELLECTUAL PROPERTY LAW IN THE CONTEXT OF COMPETITION LAW

‘CONSENT’ IN RELATION TO CURBS OF PARALLEL TRADE IN EUROPE

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I. DISCOURAGING PARALLEL TRADE

The most important development of 2000 in competition law for Intellectual Property (“IP”) advisors is, probably, the judgment in the Court of First Instance (“CFI”) in Bayer v. Commission.\(^1\) Preventing traders buying medicines in countries where the government permits them to be sold only at prices well below world levels has long created problems. Parallel traders then sell them in countries where the maximum price is higher.

A. Exhaustion

Once the product has been sold in one Member State by or with the consent of the holder of an IP right in another, the latter cannot exercise that right to restrain commercial import of the protected product. The right is said to be exhausted by the first sale.\(^2\) The doctrine of exhaustion applies generally and not

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only to medicines. The problem, however, is most acute in that sector because, directly or indirectly, all the governments of Member States control the price of medicines at levels that vary—some by limiting the price that may legally be charged, others by negotiating with the IP holders to reduce their prices if they want the cost of the medicines to be paid or reimbursed by a national health service, etc.

Moreover, medicines are a product for which price discrimination is especially rewarding without harming anyone. More investment in research and development ("R&D") is financed by the private sector than for almost any other product. The variable cost of production and sale is a small part of total costs, including R&D and the safety trials required by law. If it is illegal to charge much in some countries, it may continue to be worth selling there if production and sales costs are covered and there is even a small contribution to the overhead—"Ramsey pricing." The discrimination makes everyone better off: consumers in the low price countries are able to buy the product and they make some contribution to the overhead for the benefit also of those in the high cost countries.

B. Article 81

Not only has the doctrine of exhaustion prevented the use of IP rights to restrain parallel trade within the Community, the Directorate General ("DG") for Competition has been hostile to export bans in distribution agreements. Article 81(1) of the

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4. The group exemption for distribution agreements exempts restraints on active sales to protect one distributor or supplier from another distributor, but not to protect a technology licensee. Commission Regulation No. 2790/1999, O.J. L 336/21, art. 4(b), first indent (1994). Protection from active sales does not protect one distributor from another who sells through a website even in the language of the former.

Commission Regulation No. 240/96, Technology transfer, O.J. L 31/2 (1996); [1996] 4 C.M.L.R. 405, exempting technology transfer agreements, permits restraints on parallel trade between the territory of licensor and licensees or between licensees
Treaty Establishing the European Community5 ("EC") prohibits as incompatible with the Common Market agreements between undertakings, decisions of associations of undertakings and concerted practices that may affect trade between member States and have the object or effect of restricting competition within the common market.

The Community concern for the interest of parallel traders and the short term interests of consumers has been cogently criticised in many articles, notably by some given in the series of conferences held at Fordham Law School.6 It is not my topic today.

C. Bayer v. Commission

I want to speak about the way that Bayer tackled its problem of parallel imports. Its best selling range of medicines was sold under the names Adelat or Adelate. The maximum prices le-


gally obtainable in Spain and France were some forty percent lower than those obtainable in the UK. From 1989, French wholesalers started to undermine the UK price by exporting there and, from 1991, the Spanish wholesalers did the same. Between 1989 and 1993 Bayer sales to its UK subsidiary fell by about half.

Bayer was careful not to forbid or even discourage its French or Spanish dealers from parallel trade. It reduced the amount of Adelat available to them to what it thought they needed for domestic sales, normally what they had received in an earlier period plus ten percent. Each dealer was informed of its maximum amount. These dealers continued to do everything they could to obtain more Adelat and exported all they could to the UK.

To infringe Article 81 of the EC Treaty, there must be some collusion between firms independent of each other, but collusion is found in Europe far more easily than in the United States. In Bayer, the Commission found that there was an agreement between Bayer France and Bayer Spain on the one hand, and the French and Spanish dealers, imposing an export ban and fined Bayer 3 million ECU.

Bayer appealed on the ground that its conduct was unilateral and involved no collusion with the dealers. Concertation within the Bayer group is irrelevant, as parent and dependent subsidiary are treated as a single undertaking. Consequently, there is no collusion between undertakings. The question was whether collusion between Bayer and any individual French or Spanish wholesaler had taken place.

The CFI considered the earlier case law on the concept of "agreement" from paragraph 66 and concluded that it:

69. [. . .] centres around the existence of a concurrence of wills between at least two parties, the form in which it is manifested being unimportant so long as it constitutes the faithful expression of the parties' intention.

70. In certain circumstances, measures adopted or imposed in an apparently unilateral manner by a manufacturer in the context of his continuing relations with his distribu-

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tors have been regarded as constituting an agreement within the meaning of Article 85(1) [now Article 81(1)] of the Treaty (Joined Cases 32 & 36–82/78 BMW Belgium SA v. Commission;10 AEG;11 Ford and Ford Europe;12 Case 75/84, Metro v. E.C. Commission ("Metro II");13 Case 277/87, Sandoz;14 Case C-70/93, BMW v. Ald15).

71. That case law shows that a distinction should be drawn between cases in which an undertaking has adopted a genuinely unilateral measure, and thus without the express or implied participation of another undertaking, and those in which the unilateral character of the measure is merely apparent. Whilst the former do not fall within Article 85(1) of the Treaty, the latter must be regarded as revealing an agreement between undertakings and may therefore fall within the scope of that article. That is the case, in particular, with practices and measures in restraint of competition which, though apparently adopted unilaterally by the manufacturer in the context of its contractual relations with its dealers, nevertheless receive at least the tacit acquiescence of those dealers.

72. It is also clear from that case-law that the Commission cannot hold that apparently unilateral conduct on the part of a manufacturer adopted in the context of the contractual relations which he maintains with his dealers, in reality forms the basis of an agreement between undertakings within the meaning of Article 85(1) of the Treaty if it does not establish the existence of an acquiescence by the other partners express or implied, in the attitude adopted by the manufacturer. (BMW Belgium;16 AEG;17 Ford and Ford Europe;18 Metro II;19 Sandoz;20 BMW v. Ald21).

Bayer admitted that it had "introduced a unilateral policy..."
designed to reduce parallel imports," but denied having planned
and imposed an export ban or having had discussions with deal-
ers about an export ban, let alone making an agreement with
them. Moreover, Bayer had stated that the dealers did not ad-
here in any way to its unilateral policy and had no wish to do so.

The Court went very carefully through the evidence in rela-
tion to each of Bayer's dealers. It analyzed the evidence pro-
vided by the Commission in its decision and asked sharp ques-
tions at the hearing. It found that although Bayer intended to restrain parallel
trade it did not intend to impose an export ban on the French
or Spanish dealers. Bayer tried to work out how much Adelat
each dealer needed for its domestic customers, but did not
check how much was actually exported by each to the UK.

The CFI also found that the dealers did not agree, even tac-
titly, not to export. They tried to obtain all the Adelat they could
by putting in many small orders as well as the large ones they
had been submitting centrally and provided all the Adelat not
needed domestically for export. At paragraph 136, the Court
stated "the wholesalers are required to ensure the distribution of
products on the national market in an appropriate and stable
manner." It did not, however, treat this as discouraging the deal-
ers from exporting so much Adelat that insufficient would re-
main for local consumption.

Finally, the CFI distinguished the facts of the current case
from the case law cited by the Commission. Unlike Sandoz, the
invoices sent after each order accepted did not state "export
prohibited." In Tipp-Ex v. Commission, the European Court of
Justice ("ECJ") found that the dealer had cooperated with the
supplier's request to raise the price of exports so as to remove
any incentive for the purchaser to buy in another Member
State. The CFI distinguished BMW, AEG and Ford on the

26, 2000).
23. Id. ¶ 76.
24. The parties are warned of these questions in advance, so as to have a real
change to answer them.
26. Id. ¶¶ 158-71.
ground that it is not enough to find a context of a contractual relationship—cooperation by the dealers must be established. Nor is it sufficient for the Commission to find that the dealers did not break off contractual relationships.29

Doubtless, pharmaceutical and other companies disturbed by parallel trade will try to follow Bayer’s plan, but they will have to be very careful. The marketing department must never try to persuade their customers not to export. Monitoring the final destination by including codes or otherwise is dangerous. Where a duty to supply the local market is imposed, it may be difficult to avoid discouraging exports of more of the product than will enable sufficient to remain for local sale.

Nevertheless, it is now clear that there is a narrow path on which a non-dominant firm may charge different prices in different Member States and reduce parallel trade, although the Commission has lodged an appeal. Its continued refusal to condone export bans and contractual provisions of similar effect, even in the pharmaceutical sector where fixed costs are high and variable costs are low, is demonstrated by the Commission’s decision in Glaxo/Welcome.30 The Commission ordered a pharmaceutical company to stop infringing Article 81 by dual pricing—charging more for the medicines not ultimately sold in Spain. The price of the drugs paid for by the Spanish national health system was controlled by Spanish law at a lower level.

Glaxo/Welcome argued that discouraging Spanish wholesalers from selling in the UK would result in its devoting more funds to R&D.31 The Commission did not address the argument that economists advocate Ramsey pricing, recovering more of the overhead costs from those more able to pay than from others, provided that the variable costs of every sale are recovered.32

The argument was raised only by implication at paragraph 93. The justification of dual pricing seems to have been argued on the basis of a contribution only to R&D and not on a contri-
bution to other overhead costs. By finding that any attempt to minimize the distortion by the Spanish control of prices to competition infringed Article 81(1) and required exemption, the Commission imposed the onus on the parties.

D. Copyright May Trump Article 81 when There is No Exhaustion

In *Micro Leader Business* the CFI confirmed the Commission’s rejection of a complaint by a parallel trader under Article 81 on the ground that there was no collusion between independent firms. Judgments based on the rejection of a complaint are seldom as clear as those on substance. The Commission is entitled to choose its priorities as long as it gives cogent reasons for rejecting a complaint. Consequently, much turns on the phrasing of the letter dismissing the complaint.

Microsoft sold some French language software in Canada. Microsoft France sent an information bulletin to its dealers informing them that measures had been taken to reinforce the ban on marketing Canadian products outside Canada.

On the ground that the measures concerned were the lawful exercise of Microsoft’s copyright in the software, the Commission rejected a complaint from a parallel importer based on Article 81. The software had not been sold by the holder or with its consent in the Common Market and there is no doctrine of international exhaustion. The Bulletin issued by Microsoft’s subsidiary was a unilateral act and there was no evidence that it was issued in collusion with its dealers in Canada or France. Any collusion between dependent companies within the Microsoft group falls outside Article 81(1). This the CFI accepted at paragraphs 30 to 40.

30. It is, therefore, apparent from the contested Decision, first, that the Commission takes the view that the applicant has not put forward any evidence in its complaint that Microsoft’s measures to prevent the importation into France of French-language products marketed in Canada were taken under an agreement with Canadian and/or French dealers. The Commission essentially takes the view that such measures must in fact be considered to be

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unilateral inasmuch as they constitute the enforcement by MC of the copyright it holds over its products marketed in Canada under Article 4(c) of Directive 91/250. Nor, secondly, has it furnished evidence that there was an agreement to fix resale prices on the French market.

31. An infringement of Article 85(1) of the Treaty necessarily results from collaboration by several undertakings. The Commission cannot, therefore, be accused of having committed an error of law or a manifest error of assessment in taking the view that, in the absence of proof of the existence of an agreement or a concerted practice between two or more undertakings. The actions of the Microsoft group impugned in the applicant's complaint did not constitute an infringement of Article 85(1) of the Treaty.

34. Furthermore, ... even if MC did in fact restrict in that way the opportunities for Canadian distributors to sell their products outside Canada, MC would merely have been enforcing the copyright it holds over its products under Community law.\(^35\)

The Appellant had also complained that forbidding import of the French language product from Canada amounted to the abuse of a dominant position.\(^36\) This was rejected by the Commission on the ground that the complainant had furnished little proof that Microsoft was dominant. It had not identified the relevant product market. So, the Commission might not be able to establish a dominant position.

It would not decide the question since the conduct did not appear abusive even if it could be established that Microsoft was dominant. It had restrained import of products that had not been marketed in the Common Market with consent of the holder. Moreover, there was no evidence that it had charged the appellant more than other firms within the Common Market.

The CFI decided, however, that:

54. Whilst it is true that, under Article 4(c) of Directive 91/250, the marketing by MC of copies of software in Canada does not, in itself, exhaust MC's copyright over its products in the Community . . . the factual evidence put forward by the


\(^{36}\) Id. ¶ 49.
applicant constitutes, at the very least, an indication that, for equivalent transactions, Microsoft applied lower prices on the Canadian market than on the Community market and that the Community prices were excessive.

55. The extract from MF’s information bulletin... suggests that the products imported from Canada were in direct competition with the products marketed in France and that their resale price in France was significantly lower, despite the expense of importing them into the Community from a third country. The information contained in that bulletin cannot be considered to be of no relevance whatsoever since it comes from an undertaking, MF, which belongs to the group holding the copyright over the products at issue.

The Court referred to the judgments of the ECJ in Silhouette International Schmied and Sebago and Maison Dubois to establish that there is no international doctrine of exhaustion.

Charging higher prices in the Community than in Canada, however, would infringe Article 86. The Commission could not maintain at the time of its rejection that there was no evidence of an abuse without going further into the complaint. The CFI, therefore, quashed the decision under Article 86 for a manifest error of appreciation.

The ability of a copyright holder that enjoys a dominant position in the common market to exercise its intellectual property rights ("IPRs") to keep goods out of the Common Market may not be of much use to dominant firms, if it is treated as discriminatory and illegal to discriminate in price as between dealers inside and outside the Common Market. Non-dominant firms, which are allowed to discriminate, however, may find the unilateral action route promising.

All too often the ECJ and CFI have treated discrimination as abusive without considering any economic justification. Discrimination is one of the examples of the abuse of a dominant position set out in Article 82 of the EC Treaty. Sometimes the Commission has not objected on the grounds that the markets are different, but it has not accepted that discrimination is justified when variable cost is a small part of total cost.

39. See Ridyard & Lewis, supra note 3.