EU Competition Law Newsletter

Highlights

— The Google Android Hearing Before The General Court Of The European Unions
— The Court Of Justice Confirms That Subsidiaries Can Be Held Liable For The Antitrust Infringements Of Parent Companies

The Google Android Hearing Before The General Court Of The European Union

In a five-day session, between September 27, 2021 and October 2, 2021, the General Court of the European Union (the “General Court”) heard Google’s and the European Commission’s (the “Commission”) arguments in the Google Android case.¹

Background

In July 2018, the Commission adopted a decision (the “Decision”) fining Google a record-breaking €4.34 billion for allegedly imposing anticompetitive restrictions on original equipment manufacturers (“OEMs”) and mobile network operators (“MNOs”), with a view to strengthening a dominant position in general internet search.²

The Commission found three infringements of Article 102 TFEU. First, under mobile application distribution agreements (“MADAs”), Google tied the Google Search and Chrome apps with the Play Store. Second, under the anti-fragmentation agreements (“AFAs”), Google conditioned its licensing of the Play Store and Google Search app on OEMs committing not to develop or sell devices running a non-compatible version of Android (a so-called “Android fork”). Third, Google entered into revenue sharing agreements (“RSAs”) with OEMs and MNOs on the condition that they did not preinstall competing general search applications on any device within an agreed portfolio.

In October 2018, Google filed an appeal to the General Court seeking the annulment of the Commission’s decision. Google raised six pleas, contesting each of the three alleged infringements, as well as the Decision’s assessment of market definition and dominance, its fine calculation, and the Commission’s procedure.

¹ Google LLC and Alphabet Inc. v Commission (Case T604/18), case pending. Cleary Gottlieb is representing Google in the proceedings.
The hearing

The five-judge panel was presided by judge Anna Marcoulli, with Sten Frimodt Nielsen acting as Judge-Rapporteur. The main parties were joined by a number of interveners. Despite Covid-19 limitations, the hearing was public and attended by the press. It was conducted in English, the language of the case.

Below is a brief overview of the main arguments the parties raised before the Court in respect of the four substantive pleas.

**Market definition and dominance.** Google argued that Android and the Play Store are not dominant because they face significant competition from Apple. By focusing on the OEMs’ perspective, and the fact that Android is licensable and Apple is not, the Decision wrongly dismissed the intense “system competition” for users and developers between, on the one hand, Android and Google Play and, on the other hand, iOS and Apple’s App Store. In response, the Commission argued that any constraint Apple’s ecosystem exerts on Android and Google Play could only be “indirect.” The Commission also argued that it analyzed the indirect constraint from Apple and found it “insufficient.”

The Court queried the Commission’s finding that users would not switch to Apple from Android in response to a small but significant and non-transitory decrease in quality (“SSNDQ”) of Android. Google argued that the Commission had failed to show that the SSNDQ test—which the Decision itself put forward—was satisfied. The Commission submitted that, whilst quantifying a quality reduction is a “metaphysical impossibility,” it did engage with quality levels by looking at the low frequency of OS updates on Android devices.

**MADAs.** With respect to the preinstallation of the Google Search app and Chrome under the MADA, Google emphasized the MADA’s procompetitive nature: it licensed Google Play for free in return for OEMs’ promoting Google Search and Chrome through non-exclusive preinstallation. The Commission submitted that Google did not offer any credible evidence to back its claim that the preinstallation obligations on OEMs were justified to facilitate Google’s investments in Android.

Google also contended that the non-exclusive preinstallation condition could not result in anticompetitive foreclosure because users have easy and unrestricted access to rivals, for example through downloading. The fact that rival general search apps had low download rates was evidence of user preference for Google Search on account of its superior quality.

The Commission maintained that the MADA preinstallation requirements amounted to classic tying. According to the Commission, rivals’ means of reaching users were unviable, especially when what comes on the device is “satisfactory.” The Judge-Rapporteur recognized that, unlike in the Microsoft Media Player case from the 2000s, users face no barriers to downloading rival apps, which he noted is trivially easy.

**RSAs.** With respect to the competitive impact of the portfolio RSAs, Google argued that RSAs’ coverage of the relevant market was miniscule (less than 5%), precluding any plausible harm to competition. The Commission accepted that the challenged RSAs had a low coverage, but that qualitative factors—such as the strategic importance of mobile devices and data—augmented the impact of the RSAs.

Google also highlighted that the Commission did not carry out an accurate “as-efficient competitor” (“AEC”) test. The Commission responded that the AEC test had limited value in the current circumstances, given Google’s high share in search services, which made “the emergence of an efficient competitor almost impossible.”

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1. The Application Developers Alliance (ADA), the Computer & Communications Industry Association (CCIA), Android OEMs Gigaset and HMD, and browser rival Opera intervened in support of Google; consumer organization BEUC, FairSearch, rival search services Seznam and Qwant, and two German publisher associations intervened in support of the Commission.

**AFAs.** With respect to the AFAs, the parties argued over whether the AFAs restrict competition and are objectively justified. Google submitted that the AFA’s compatibility obligations are not a restriction of competition because they only set the minimum requirements to achieve compatibility and do not prevent differentiation and innovation on top of the compatibility baseline. The Commission argued that the AFAs were capable of foreclosing competition, as OEMs that wanted to license Google Play and the Search app could not experiment with Android devices that Google had not approved.

Google also explained that the AFAs are objectively justified because they address a real concern that fragmentation could kill Android and ensure that the attractiveness of the Android platform is preserved. The Commission claimed that Google used the AFAs as a means to control Android implementations, citing Google internal documents said to support its case that Google sought to restrict competition from incompatible Android implementations (such as mobile devices running Amazon’s Fire OS).

**Next steps**

The panel will now deliberate, and will deliver a ruling within approximately one year. The main parties will then have the right to appeal the General Court’s judgment to the Court of Justice.

### The Court Of Justice Confirms That Subsidiaries Can Be Held Liable For The Antitrust Infringements Of Parent Companies

On October 6, 2021, the Grand Chamber of the Court of Justice handed down a landmark judgment concerning the issue of downward liability in antitrust follow-on damages claims. While the parental (or upward) liability doctrine has long been established, for the first time, the Court of Justice shed light on whether subsidiaries can be held liable for their parents’ antitrust infringements in both public and private enforcement contexts. The ruling answered this question affirmatively, so long as the subsidiary and the parent company form part of the same undertaking.

**Background**

On July 19, 2016, the Commission imposed a €2.93 billion fine on various truck manufacturers including Daimler AG for colluding on truck pricing and the costs of compliance with stricter emission rules. Following the Commission’s decision, Sumal, a Spanish manufacturer of roll containers and metal containers, brought an action for damages against Daimler AG’s subsidiary in Spain, seeking compensation for the two trucks that it acquired at cartelized prices.

The Spanish Court of First Instance rejected Sumal’s action because Daimler AG’s subsidiary was not an addressee of the Commission’s decision. Sumal appealed before the Provincial Court of Barcelona, which in turn stayed the proceedings and requested guidance from the Court of Justice on whether and, if so, under what conditions a subsidiary can be held liable for the infringements of its parents.

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5 Sumal, S.L. v Mercedes Benz Trucks España, S.L. (“Sumal”) (Case C-882/19) EU:C:2021:800.
7 Trucks (Case AT.39824), Commission decision of July 19, 2016.
EU law governs downward liability in follow-on damages actions

At the outset, the Court of Justice confirmed two fundamental findings from its recent Skanska ruling. First, the determination of the entity required to provide compensation for damages caused by an antitrust infringement is directly governed by EU law. Second, given that follow-on actions for damages are an integral part of the enforcement of EU competition rules, the concept of “undertaking” has an identical scope in public and private enforcement. While Skanska made this clear with respect to parental (or upward) liability, Sumal confirms that the principle also applies with respect to downward liability.

Antitrust liability is imputed to the “undertaking”

The Court of Justice observed that EU competition laws target the activities of “undertakings.” This concept must therefore also determine the perpetrator of an antitrust infringement and the addressee of a fine. Independent from the concepts of “company” or “legal person,” the concept of “undertaking” covers “any entity engaged in an economic activity, irrespective of the legal status of that entity and the way in which it is financed” and defines an “economic unit.” Accordingly, an undertaking may consist of several natural or legal persons, but constitute one unitary organization.

The Court of Justice ruled that if at least one entity within an economic unit commits an infringement of EU competition rules, the whole economic unit, including each single entity within such economic unit, is to be treated as having committed the infringement. Accordingly, the decisive condition to bring a follow-on damages action against a subsidiary is the existence of one single economic unit that comprises both the subsidiary and its parent entity, and not whether the subsidiary was an addressee of the Commission’s decision.

Applying this principle to the context of downward liability, the Court of Justice held that two conditions need to be met for a victim to bring a claim against a subsidiary for its parent company’s infringement:

— Economic, organizational, and legal links. In line with Akzo Nobel, the Court of Justice reiterated that the existence of decisive influence or control over the subsidiary by its parent company demonstrates such links. The Court, however, did not elaborate further on the conditions required to establish economic, organizational, and legal links between the subsidiary and the parent.

— Specific link between the economic activity of the subsidiary and the subject matter of the anticompetitive conduct. The Court of Justice recognized that certain groups of companies or conglomerates consist of several entities that are active with different and unrelated economic activities. To exclude liability for subsidiaries that carry out economic activities entirely unconnected to those of the parent company, the Court required the claimant to show that the defendant subsidiary carried out an economic activity with a specific link to the subject matter of the infringement in question. For this purpose, the claimant should in principle establish that “the anticompetitive agreement concluded by the parent company [...] concerns the same products as those marketed by the subsidiary.” With this second condition, the Court of Justice effectively confirmed that a single corporate group may be composed of more than one economic unit, each a separate subject of EU antitrust laws.

8 Skanska Industrial Solutions and Others (“Skanska”) (Case C724/17), EU:C:2019:204.
9 While this second condition appears to narrow down the classical concept of “undertaking,” the judgment does not provide much guidance on where the line needs to be drawn in determining the specific link between the subsidiary’s economic activities and the subject matter of the anticompetitive conduct. Questions may arise, for example, where the parent and the subsidiary sell similar but differentiated products (e.g., different brands of trucks or different types of confectionery), or even vertically-related products (e.g., truck parts).
10 While this approach helps limit the attribution of downward liability to subsidiaries that carry out related economic activities, the same interpretation may have further implications in areas where the notion of “undertaking” is used. For example, it might suggest that an intra-conglomerate agreement between two subsidiaries of a corporate group is subject to Article 101 TFEU if the subsidiaries are engaged in different and unrelated economic activities.
Subsidiary’s right of defense

The Court of Justice emphasized that a subsidiary’s right of defense must be observed in antitrust damages actions. In particular, the subsidiary should be able to dispute (i) that it belongs to the same undertaking as its parent company, and (ii) the existence of an infringement.

If, however, a preceding Commission decision has found an antitrust infringement by the parent company, the subsidiary cannot challenge the existence of an infringement in a follow-on damages action before the national court. In this scenario, the entire undertaking, both the subsidiary and the parent company, is deemed to have had the opportunity to challenge the finding of an infringement during the administrative procedure.

Practical implications

The judgment has several practical implications:

— **The range of options for antitrust victims expands.** Victims of an antitrust infringement can bring damages actions in their home jurisdiction against a local subsidiary of the perpetrator instead of a parent company located in another jurisdiction. By doing so, victims can avoid the costs and practical difficulties of bringing a damages action against a foreign parent company, which may lead to more complex service requirement and enforcement procedures. More generally, the judgment potentially increases the range of jurisdictions in which actions may be brought.

— **Sister companies may face follow-on damages actions.** The judgment does not appear to limit its interpretation of the notion of undertaking to the matter of downward liability. Applying the same interpretation to the context of horizontal liability, sister companies may also be held liable for their respective infringement, if they form part of the same economic unit.

— **Any legal entity within an economic unit may be liable to pay an antitrust fine.** While the judgment concerned subsidiaries’ liability for antitrust infringements of their parents in the context of private enforcement, the Court of Justice clarified that the Commission may choose to fine any legal entity belonging to the same economic unit when at least one legal entity within that economic unit commits an antitrust infringement. The fact that a legal entity is not named as an addressee of such Commission decision cannot be relied on to argue that it was not part of the same economic unit.

News

Commission Updates

**Illumina And Grail Run Into First-Ever Interim Measures For Gun-Jumping**

On October 29, 2021, for the first time, the Commission imposed interim measures on companies that closed a deal before obtaining merger approval. On August 18, 2021, U.S. gene-sequencing company Illumina publicly announced it had acquired Grail, a start-up that has developed multi-cancer early detection tests. The Commission had taken jurisdiction to review the transaction on April 19, 2021, and started an in-depth investigation on July 22, 2021, with a final decision expected by February 4, 2022. The announcement therefore suggested that the parties implemented a transaction which was still under review. This would amount to a violation of the standstill obligation, commonly referred to as “gun-jumping.”
In a statement of objections issued on September 20, 2021, the Commission notified Illumina and Grail of their alleged breach. In these circumstances, the Commission has the power to adopt interim measures to restore and maintain effective competition. While it has never done so in the past, in a decision dated October 29, 2021, the Commission ordered that, until the conclusion of the merger review process:

— Grail stay separate from Illumina and be run by an independent manager;
— the two companies do not exchange confidential business information, except where required by law or as justified by their supplier-customer relationship;
— Illumina finance additional funds necessary for the operation and development of Grail;
— the companies interact at arm’s length, in line with industry practice, meaning without unduly favoring Grail over its rivals; and
— Grail actively prepare for a scenario in which the deal is blocked and has to be undone.

A monitoring trustee—to be approved by the Commission—will monitor compliance. If the companies do not comply, they face penalty payments of up to 5% of their average daily turnover and/or fines of up to 10% of their annual worldwide turnover. Eventually, if the Commission concludes that the companies did in fact breach merger rules by “jumping the gun,” they could face a separate fine of up to 10% of their annual worldwide turnover.

The Commission has previously imposed heavy fines on companies for gun-jumping. In June 2019, Canon was fined €28 million for failing to notify and await clearance before implementing its acquisition of TMSC, and in September 2021, the General Court largely upheld a €124.5 million fine on Altice for breach of the standstill obligation.

The Commission’s interim measures decision in Illumina/Grail underscores its recent tough stance against gun-jumping practices. Prudent companies will heed this warning, and avoid premature implementation of a transaction, instead awaiting the outcome of the Commission’s investigation.

A New Dawn Or A False Dawn? The Commission Revamps Dawn Raids

The Commission is returning to the office; but not just to its own. It recently launched dawn raids in three separate investigations and warned of more to come after two years of inactivity in this regard. The COVID-19 pandemic made it impracticable for the Commission to conduct dawn raids, let alone coordinate in multiple countries at once. The receding pandemic, however, allows for a rise in dawn raids.

On October 12, 2021, the Commission launched its first international dawn raid (and only the second dawn raid overall) since the beginning of the COVID-19 pandemic. The Commission inspected the offices of at least four companies in Finland and Germany active in the wood pulp market amidst concerns regarding a violation of EU cartel rules.
Ten days later, on October 22, 2021, Commissioner Vestager took the floor at the Italian Antitrust Association’s annual conference and delivered a speech entitled “A new era of cartel enforcement.” Commissioner Vestager spoke of the Commission’s efforts to revamp dawn raids and explicitly stated that the international dawn raids of October 12, 2021 were “just the start of a series of raids” that the Commission is planning for the coming months—a surprising advance warning, given that dawn raids are supposed to catch companies off-guard.

These were no idle words. Three days later, on October 25, 2021, the Commission launched dawn raids in Belgium at the Zaventem and Louvain-la-Neuve offices of animal health company Zoetis, this time prompted by concerns regarding a possible abuse of a dominant position.

Less than a month later, on November 23, 2021, the Commission continued its “series of raids” by launching a dawn raid in the defense sector amidst concerns about a violation of EU cartel rules. The Commission did not disclose the name or the location of the company involved.

The Commission’s revamp of dawn raids comes after a decline in the number of classic cross-border cartel cases pursued in recent years. Increased dawn raid efforts are aimed at reviving the Commission’s cartel enforcement practice. Hence, companies should take note, and consider a revisit to their dawn raid guidelines.

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**Court Updates**

**The End Of The Spanish Financial Goodwill Saga: The Court of Justice Expands The Notion Of Selectivity In State Aid Cases**

On October 6, 2021, the Court of Justice dismissed eight appeals brought against the 2019 judgments of the General Court, upholding the classification of Spanish tax rules on the amortization of financial goodwill as State aid incompatible with the internal market. The judgments are noteworthy as the Court of Justice, sitting as the Grand Chamber, shed light on the interpretation of the notion of selectivity—one of the cumulative criteria required for a national measure to qualify as State aid contrary to EU law. In particular, it clarified that even a measure of general nature that is open to all undertakings can be selective, if it benefits certain undertakings depending on whether they decide to carry out certain transactions.

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**Background**

The judgments concern a Spanish tax measure under which companies subject to taxation in Spain can deduct from their taxable base the financial goodwill arising from an acquisition of a shareholding in a foreign company. In two related decisions from October 2009 and January 2011 respectively, the Commission declared that the tax amortization measure at issue constituted State aid incompatible with the internal market because it introduced an unjustified difference in treatment between undertakings that have decided to carry out comparable transactions (i.e., acquisitions of a shareholding in foreign, as contrasted from Spanish, companies).

In November 2014, the General Court annulled the Commission’s decisions because the Commission had not established that the tax measure at issue was selective, as it was open to all.

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22 Sigma Alimentos Exterior v Commission (Case C-50/19) EU:C:2021:792; World Duty Free v Commission (Jointed Cases C-51/19 and C-64/19) EU:C:2021:793; Banco Santander v Commission (Case C-55/19) EU:C:2021:794; Prosegur Compañía de Seguridad v Commission (Joined Cases C-53/19 and C-65/19) EU:C:2021:795; Axa Mediterranea v Commission (Case C-34/19) EU:C:2021:796; Prosegur Compañía de Seguridad v Commission (Case C-35/19) EU:C:2021:797.

companies subject to taxation in Spain, rather than
aimed at a particular category of undertakings or
at the production of a particular type of goods. 24
In December 2016, the Court of Justice in turn
quashed the General Court’s judgments because
they were based on an incorrect understanding
of selectivity, and referred the cases back to the
General Court. 25

In November 2018, the General Court held that
the tax measure at issue was indeed selective and
dismissed the actions for annulment brought against
the Commission’s decisions. 26 After over a decade
of back-and-forth between the courts, the Court
of Justice upheld the General Court’s judgments,
confirming the Commission’s characterization of the
measure as unlawful State aid.

The Notion of selectivity

The Court of Justice from the outset recalled
the three-step test for selectivity of national
tax measures that the Commission must apply.
First, it must identify the common or normal tax
system applicable in the Member State. Second, it
must demonstrate that the tax measure at issue
is a derogation from that reference tax system,
differentiating between undertakings that—in light
of the objective pursued by the legal system—are
in a comparable factual and legal situation. Third,
it must ascertain whether that differentiation is
justified as a corollary to the nature or general
structure of the reference tax system.

Upholding the General Court’s novel
interpretation on the second limb of this test,
the Court of Justice confirmed that a national
tax measure may be selective even if its scope
of application is not restricted to a group of
undertakings with specific characteristics. As in
the present case, a national measure of general
application may be selective if it has different
effects on undertakings, depending on whether
they carry out a certain type of transaction (e.g.,
buying shares in a foreign company) or another
comparable transaction (e.g., buying shares in a
Spanish company).

Conclusion

These judgments endorse a novel and broad
interpretation of the notion of selectivity, now
covering selectivity based on the specific
transactions that economic operators may decide
to carry out. In practical terms, the judgments
provide the Commission with ammunition to
assess the lawfulness of an increasing number of
national tax measures of general application: it
can now qualify a tax measure as unlawful State
aid, based on the different nature of transactions
carried out by the potential beneficiaries and
without the need to identify a specific category of
beneficiaries targeted by the measure.

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