September-October 2020

German Competition Law

Newsletter

Highlights

- The FCO's Activities In The First Half Of 2020
- The FCO's Narrow Price Parity Clause Investigation

The FCO's Activities In The First Half Of 2020

On September 2, 2020, the German Federal Cartel Office ("FCO") published its Annual Report 2019/2020 ("Annual Report") which includes an update on the FCO's activities in the first half of 2020.¹

The Annual Report details the FCO's activities in cartel enforcement, merger control, the digital economy, consumer protection, and public procurement, and gives a general update on developments in private damages actions. In the first half of 2020, the FCO

- imposed cartel fines of nearly €158 million,
- examined approximately 505 notified mergers, and
- published the reports of various sector inquiries in the digital economy.²

COVID-19

Unsurprisingly, the COVID-19 pandemic has also affected the FCO's work. The FCO notes three areas in particular:

- The FCO has been asked to provide guidance on numerous industry cooperation projects, in particular cooperation regarding production to avoid bottlenecks, in logistics, distribution, and storage, and in restarting complex supply chains.³
- Through international coordination the FCO participated in joint initiatives of European and international competition authorities to provide guidance to companies.⁴
- The FCO also contributed to legislative initiatives to facilitate competition law enforcement during the crisis.⁵

¹ FCO Annual Report 2019/2020, September 2, 2020, available in English <u>here</u>. For an overview of the FCO's activities in 2019, see German Competition Law Newsletter of November 2019 – January 2020, p. 6 et seq., available <u>here</u>.

² For more details on the FCO's sector inquiries in the digital economy, see our articles in this newsletter.

³ For example, the FCO reviewed the German Association of the Automotive Industry's production and supply measures for overcoming the challenges caused by the COVID-19 crisis and decided to refrain from examining them in more detail under competition law. See FCO Press Release of June 9, 2020, available in English here.

⁴ For example, the "ICN Steering Group Statement: Competition during and after the COVID-19 Pandemic" of April 2020, available <u>here</u>; the "Joint Statement by the European Competition Network (ECN) on application of competition law during the Corona crisis", available <u>here</u>.

⁵ For example, on the German legislature's amendments to German competition law which temporarily extended merger control review periods and temporarily suspended interest payments for antitrust fines.

The FCO acknowledges that currently companies in many sectors must cooperate to react to bottlenecks in the production, storage, logistics, and distribution of goods, and that this may also apply between competitors or in a supplier-customer relationship. Under normal circumstances, such cooperation would often be problematic under antitrust law. Therefore, the FCO encourages companies to contact the authority for guidance on any questions of doubt concerning cooperation, and vows to review and provide guidance within a short timeframe.

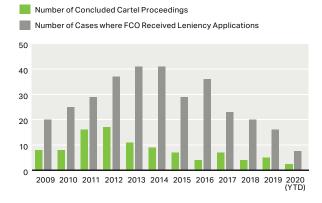
The FCO has also stated that it will not actively intervene against cooperation aimed at coping with the COVID-19 crisis, provided (i) the cooperation does not go beyond what is necessary to generate efficiencies, (ii) the undertakings concerned keep the FCO informed about the development of the cooperation, and (iii) the cooperation ends without due delay after the end of the COVID-19 crisis. The FCO thus endeavors to ensure that no cartels are formed to the harm of customers or that companies do not illegally abuse their market power.⁶

As regards merger control, the FCO's President, Andreas Mundt, noted that the FCO would not adopt a lighter review approach due to COVID-19, as any structural deteriorations caused by mergers would continue to have effects post-crisis. While the crisis has led to a decrease of the number of merger notifications compared to previous years, the FCO is expecting a renewed increase in the coming months, especially due to takeovers of companies facing economic difficulties.⁷

Cartel Prosecution

As in previous years, cartel prosecution remains a key area of focus for the FCO. The FCO concluded its investigation in the plant protection products

market, imposing fines of almost €157.8 million on eight wholesalers of plant protection products and their representatives for agreeing on price lists, discounts, and in some instances on individual prices when selling to retailers and end customers in Germany.⁸ A number of investigations are ongoing, and the FCO has received seven leniency applications in 2020 so far.⁹ 2020 continues the trend of a decreasing number of leniency applications, in particular when compared to the peak years of 2013/2014.



Merger Control

Merger control also remained a key area for the FCO in 2020 even though only 505 merger projects were notified from January to the end of June 2020, which is over 20% less than in the same period of 2019 (in May 2020 even more than 50% less than in May 2019).¹⁰

Contrary to 2019, 2020 was not marked by prohibition decisions and filing withdrawals. The FCO did not issue a single prohibition decision, and only one filing was withdrawn for the planned acquisition of Harry's Inc. by the Edgewell Personal Care Company following an in-depth ("Phase 2") review.¹¹

As reported in earlier newsletters, 12 the Draft Proposal for the 10th Amendment to the

⁶ See Andreas Mundt, "The Bundeskartellamt in times of COVID-19: adaption of workflows and implications for our enforcement practice", Journal of Antitrust Enforcement, dated June 9, 2020, p. 254, available https://example.com/html

FCO Press Release of September 2, 2020 available in English here.

FCO Press Release of September 2, 2020, available in English here; see also FCO Annual Report 2019/2020, September 2, 2020, p. 18, available in English here.

⁹ FCO Press Release of September 2, 2020 available in English here.

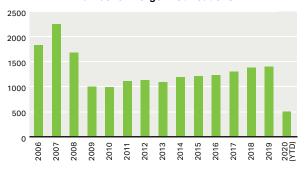
¹⁰ FCO Press Release, September 2, 2020, available in English here.

¹¹ FCO Case Summary (B5-149/19) dated February 11, 2020 is only available in German here.

¹² See, e.g., German Competition Law Newsletter of November 2019 - January 2020, pp. 3 and 7, available here.

German Act against Restraint of Competition ("ARC") increases the second domestic turnover threshold from €5 million to €10 million with the aim of reducing the number of notifications by approximately 20%. This will enable the FCO to focus on cases that are key to consumers' interests as well as on Phase II cases which require a substantial amount of time and resources.

Number of Merger Notifications



Digital Economy And Consumer Protection

Following the 2017 Amendment of the ARC, which granted the FCO the competence to conduct sector inquiries into consumer protection issues, a number of inquiries were launched and are still pending, including in relation to online advertising, waste-management, and hospitals. Moreover, the launch of the FCO's Digital Economy Unit in August 2019 and the FCO's activities in 2020 underline the authority's continued focus on this space. In July 2020, the final report of the sector inquiry "smart TVs" was published, finding transparency and data protection gaps in manufacturers' data protection regulations. In October 2020, the FCO also published its "Online User Reviews" sector

inquiry, noting a number of issues in the handling of paid-for user ratings by online platforms.¹⁴

In 2020, the FCO has also continued to provide guidance for digital platform operators to clarify any competition law with respect to cooperation in the digital economy. In early 2020, following a request for clarification of any competition law issues, the FCO announced it had no objections to the launch of the digital trading platform for agricultural products "unamera".¹⁵

Public Procurement

Finally, with respect to public procurement, the FCO will continue working towards the establishment of the so-called Federal Competition Register for Public Procurement, which is intended to enable contracting authorities to check whether a company has previously committed relevant violations of commercial law. The FCO remains confident that this register will be operational by the end of the year.¹⁶

Follow-On Damages Litigation

The FCO notes a significant increase in follow-on damage claims related to competition law infringements. Industries concerned include sugar, trucks, rails, bathroom fittings, electronic cash, chipboard panels, detergents, television tubes, packaging, cement, steel abrasives, wallpapers, gas-insulated switchgears, drugstore products, flour, and confectionary. The FCO observes a further professionalization in the bundling and assertion of damages claims, encouraged by law firms specializing in damages actions and litigation funding, and expects a continued increase of such lawsuits.¹⁷

¹³ For more details, see our article in this newsletter.

¹⁴ For more details, see our article in this newsletter.

¹⁵ FCO Annual Report 2019/2020, September 2, 2020, p. 40, available in English here. For more details, see German Competition Law Newsletter of February – April 2020, p. 6, available here.

¹⁶ FCO Annual Report 2019/2020, September 2, 2020, p. 7, available in English here.

¹⁷ FCO Annual Report 2019/2020, September 2, 2020, p. 23, available in English here.

The FCO's Narrow Price Parity Clause Investigation

In August 2020, the FCO published the results¹⁸ of its investigation into the effect of narrow price parity clauses on online sales. Narrow price parity clauses restrict suppliers from offering their products or services at lower prices or more favorable conditions in certain sales channels. In contrast, wide price parity clauses restrict suppliers from offering their products or services at lower prices or with more favorable conditions anywhere else.

The investigation was launched in the aftermath of the FCO's proceedings against Booking. com ("Booking"). In 2015, the FCO prohibited Booking from using narrow price parity clauses. In June 2019, however, the Düsseldorf Court of Appeal ("DCA") ruled that narrow price parity clauses are compatible with competition law. It found that these clauses can prevent free riding from hotels where customers find the hotel on the online booking platform but later book the room at the lower price on the hotel's own website; thereby benefitting from the platform's service while avoiding the platform's fees. The FCO has appealed the DCA's judgment.

Within the framework of the appeal proceedings, the DCA had requested the FCO to examine the effects of the prohibition of the (narrow) price parity clauses on the competitive relationship between the online hotel platforms, on the hotels' pricing and the consumers' booking behavior. In particular, the DCA asked whether the narrow price parity clause was necessary to prevent free-riding on the online platform's services.

The FCO's investigation covered the period from 2015 to 2018, during which platform operators changed their practice of applying narrow price parity clauses.²⁰ The FCO gathered information from large and small online booking platforms

in Germany, especially Booking, HRS, and Expedia and conducted online surveys with a representative sample of approximately 300 randomly selected accommodation providers listed on at least one of those three platforms. The FCO also tasked a market research company to examine how and whether prospective customers booked with Booking even when accommodation providers' own online sales channels offered more favorable rates or conditions.

The FCO's main findings can be summarized as follows:

- The FCO does not see a free-riding situation or expects Bookings to incur any loss of turnover in the absence of narrow price parity clauses.
 Narrow price parity clauses instead lead to a situation in which consumers who do not use Booking must pay higher accommodation rates.
- Accommodation providers used a mix of available pricing options including online booking platforms, on which the accommodation providers took significant care to improve their rankings. Three-quarters of online sales were on online booking platforms, and accommodation providers that used Booking consider it "almost indispensable in economic terms."²¹
- Despite most accommodation providers taking advantage of price differentiation possibilities, most consumers booked where they first found the accommodation and thus rarely compare prices, eliminating significant redirection or free-riding concerns. For customers who used Booking, 99% booked on Booking rather than with the accommodation. Only one-third of consumers compared prices on a particular accommodation on different booking channels.

^{18 &}quot;The effect of narrow price parity clauses on online sales - Investigation results from the Bundeskartellamt's Booking proceeding" ("Investigation Results") in the paper series "Competition and Consumer Protection in the Digital Economy" dated August 2020, available in English here.

¹⁹ Booking (B9-121/13), FCO decision of December 22, 2015, available in English here. See also our article in the German Competition Law Newsletter May – June 2019, p. 4 et seq., available in English here.

²⁰ While platform operators applied such clauses until the end of 2015, price parity clauses were no longer used from the beginning of 2016.

²¹ Investigation Results, p. 4.

Usually, customers who already know an accommodation are the ones to use an accommodation provider's own direct online sales channel; these customers made up about one-third of accommodation consumers total. Their bookings made up two-thirds of the bookings made using the accommodation providers' own direct online sales channel. The other one-third of customers who booked directly with the accommodation learned about it on major search engines or another

website, not Booking. In addition, over onefourth of customers using Booking already knew the accommodation, but nonetheless booked using Booking.

The investigation is relevant beyond online accommodation booking platforms, and the FCO's publication of its empirical findings is the first of its kind concerning potential free-riding effects in the absence of (narrow) price parity clauses.

News

FCO

Sector Inquiries Into Consumer Law Issues

The 2017 Amendment of the ARC granted the FCO the competence to conduct sector inquiries into consumer protection issues. The FCO recently published the results of two sector inquiries—into smart TVs and fake user reviews—and announced another sector inquiry into messenger services.

SMART TVS

On July 7, 2020, the FCO published the final report on its sector inquiry into smart TVs, *i.e.*, television sets with integrated Internet and interactive Web 2.0 features, which allow users to stream music and videos, browse the internet, and view photos.²²

The sector inquiry shows that while smart TVs offer convenient benefits for consumers by allowing the use of online services like video streaming alongside traditional Free-to-air and pay TV services, they can also be used to collect large amounts of user data, which can be used, inter alia, for advertising purposes. The FCO has identified transparency deficiencies and violations of the German Data Protection Regulation ("GDPR") by almost all smart TV manufacturers as well as unsatisfactory law enforcement in this sphere by individual consumers or consumer associations.

The FCO provides a number of recommendations for actions. Inter alia, the FCO demands that smart TV manufacturers provide consumers with better and easily understandable information about how smart TVs, and Internet of Things ("IoT") devices in general, can collect and process data—for example by using easily recognizable icons that stand for certain data protection features and/or QR codes allowing consumers to access all data protection-related information online, even before purchase. Further, the FCO also sees a need for consumers to have a legal right to software updates, including from the manufacturer.

ONLINE USER REVIEWS

On October 6, 2020, the FCO presented the results of its sector inquiry into online user reviews. The resulting report provides background on fake reviews and suggests solutions to the problem.²³

Product and service reviews make a substantial impact on consumers' online shopping choices. Manufacturers, sellers, and service providers therefore have strong incentives to promote positive reviews. This has led to fake review tactics, such as employing service providers that specialize in selling positive reviews. Users might receive free products in return for positive reviews. Also manufacturers, sellers, and service providers use software or bots to artificially generate reviews.

²² The full report is only available in German here; the press release is available in German here and in English here, and the conclusions and recommendations for action are available in English here.

²³ FCO Press Release of October 6, 2020, available in German here and in English here. A full report is only available in German here.

The FCO provides tips for consumers to be wary of fake reviews: exaggerated language, recurring language, and sometimes information about the authors can indicate when a review is fake. The FCO also posits that platforms themselves must take more responsibility to ensure posted reviews are authentic. Platforms currently might use word filters or respond to reports of suspicious reviews post-publication. But platforms should more frequently also apply machine-learning methods, review metadata of authors, and check the authenticity of reviews prior to allowing posting.

In sectors where only few customers write reviews, the FCO suggests that platforms better motivate their customers to leave reviews, such as through raffles, vouchers, small amounts of money, or free product testing. To conform with consumer law, the platform would have to clearly and explicitly mark the reviews generated through such incentives and product tests. The platforms also would be required to publish these reviews on their websites.

The FCO does not enjoy enforcement powers in consumer protection, so it would not be able to initiate proceedings against individual companies suspected of breaching consumer law. However, its inquiry may prove useful to consumers navigating online shopping and platforms seeking to provide better services to their customers.

MESSENGER SERVICES

On November 12, 2020, the FCO announced an investigation of the messenger services sector, which encompasses applications that allow users to send and receive text, images, and video.²⁴ The FCO signaled that the investigation would include an examination into whether the services adequately protect consumer data privacy and what the effect of increased interoperability of

messenger services would be on consumer choice for data protection. The investigation, which is expected to last several months, will involve discussions with key sectoral players and experts and will result in a public report.

FCO Allows Joint Marketing Of Advertising Space In Newspapers

On October 27, 2020, the FCO decided that it had no objections to the planned joint venture and cooperation between the German newspaper publishers Süddeutsche Zeitung GmbH ("SZ") and Frankfurter Allgemeine Zeitung GmbH ("FAZ") relating to the joint commercialization of their national advertising inventory. Under German law, and in contrast to EU law, potential coordination effects between the parent companies are not already assessed as part of the merger control process relating to the creation of the joint venture, but are reviewed separately under the restrictive practices provisions of the ARC.

While a cooperation between press publishers (outside editorial work) is generally exempt from German competition law, this type of agreement is still subject to EU competition law, if it may affect the trade between Member States. In the case at hand, the FCO found that this condition would be met because the cooperation covered newspaper adverts in all of Germany and directly affected companies in other Member States wishing to advertise in Germany.

The FCO found that SZ and FAZ were both active in a supra-regional market for advertisements in news print media which should be distinguished from adverts in local newspapers and (national) tabloids. In the FCO's view, this market includes daily and weekly newspapers as well as news magazines, since they all target well-educated readers with higher income.²⁷ The FCO found

²⁴ FCO's Press Release of November 12, 2020, available in English here.

²⁵ Case B7-161/20. See FCO case summary of October 29, 2020, only available in German here and the press release of October 30, 2020, available in English here.

²⁶ While a cooperation between press publishers (outside editorial work) is generally exempt from German competition law, this type of agreement is still subject to EU competition law, if it may affect the trade between Member States. In the case at hand, the FCO found that this condition would be met because the cooperation covered newspaper adverts in all of Germany and directly affected companies in other Member States wishing to advertise in Germany.

The creation of the joint venture company that is supposed to carry out the joint marketing had already been approved separately under merger control aspects, Case B7-140/20, see press release of July 28, 2020, available in English here.

²⁷ While the FCO left open whether classified ads would constitute a separate market, it considered that advertisers could easily replace printed classified ads with online classified ads (except for obituaries), but not vice versa.

that SZ and FAZ would have a joint market share between 20-30% and be the third largest player behind Gruner + Jahr and Holtzbrinck.

Joint commercialization agreements generally fall outside the safe harbor of the European rules on horizontal cooperation agreements if the joint market share of the cooperating companies exceeds 15%, and need to be assessed on a caseby-case basis. While SZ and FAZ would align their advertising pricing strategies, thereby restricting competition, the FCO found that the cooperation would be justified by significant efficiencies and it expected that consumers would receive a fair share of the resulting benefits. In particular, the FCO considered that the cooperation would ease the organization of advertising campaigns, particularly in view of a large number of companies that usually advertise in both newspapers. Further, many advertisers even expected lower prices for advertisements due to reduced complexity and possible volume discounts. The decision could be a first sign of a more lenient attitude of the FCO towards horizontal cooperation and a greater willingness to accept efficiency arguments.

Courts

FCJ Provides Useful Guidance On Umbrella Damages And The Passing On Defense In Cartel Follow-on Damages Cases

On May 19, 2020, the Federal Court of Justice ("FCJ") overturned a judgment of the Munich Court of Appeal in one of the numerous cartel follow-on damages actions brought against members of the so-called Rail Cartel ("Schienenkartell"), this time by the Munich Transportation Authority. The FCJ once more confirmed its decisional practice in the case of quota and customer protection cartels, according to which there can be no prima facie evidence that damages were incurred and/or whether individual purchase orders were affected by the

cartel.²⁹ The decision had to be reversed, for the Munich Court of Appeal had based its decision on such *prima facie* evidence. Of particular interest is the FCJ's reasoning on two other issues:

UMBRELLA DAMAGES

The FCJ reaffirmed that damages resulting from the so-called "umbrella effect"30 can also constitute causal damage. The FCJ found—in line with the Court of Justice of the European Union's ("CJEU") judgment in Kone³¹—that the autonomous price setting of a cartel outsider does not per se exclude the causal relationship between the cartel infringement and the damage incurred because the umbrella effect is a possible and foreseeable consequence of the specific cartel infringement. However, in relation to possible cartel-induced price increases, the FCJ held that there can be no prima facie evidence of the existence (and quantum) of an umbrella effect. In light of the competitive interaction of the market participants, the occurrence of such an effect always depends on a large number of economic factors and interdependencies, so that the typical sequence of events necessary for the assumption of prima facie evidence is lacking.

PASSING-ON DEFENSE

According to the FCJ, subsidies from a public-sector body generally need to be taken into account when assessing the merits of the passing-on defense, if the subsidies are causally linked to the event causing the damage. In the present case, the Munich Transport Authority had received grants from the Free State of Bavaria which were dependent—also in terms of their amount—on individual procurement transactions by the recipient and were granted for specific purposes. Claims for compensation for the damage passed on can and should therefore generally be asserted by the subsidy grantor—and not by the subsidy recipient.

²⁸ Schienenkartell IV (KZR 8/18), FCJ judgment of May 19, 2020, only available in German here.

²⁹ For more details see our articles in our German Competition Law Newsletter February - April 2020, p. 3, available here; and in our German Competition Law Newsletter March - April 2019, p. 3, available here.

³º I.e., damages allegedly suffered due to the surcharge applied by non-cartelists who, independently and rationally, adapted to a price increase resulting from a cartel by increasing their own prices.

³¹ Kone AG and Others (Case C-557/17), ECJ judgment of June 5, 2014, available here.

The situation should be different, however, if the third party to whom the claimant is alleged to have passed on his loss (i) has assigned any claims against the defendant to the claimant, (ii) has notified the defendant of such assignment, and (iii) it is not possible that the damage could have been further passed on to the third party's downstream customers. According to the FCJ, in such a case, there is no need to set off any advantage received from the third party against the damage suffered by the claimant, since all claims are concentrated in the hands of the claimant and there is no risk of the defendant being exposed to double recourse. It will be interesting to see whether this case law will also apply in other cases outside of subsidy cases where the different claims for damages within a "chain of damages" are bundled by assignment in one hand.

Dortmund Regional Court Rules On Cartel Follow-on Damage Claim Quantification

On September 30, 2020, the Dortmund Regional Court issued a ruling in a follow-on damages action related to the so-called Rail Cartel ("Schienenkartell").³² It is one of the still very few cartel follow-on damages cases in which a German court awarded damages.

While the 2017 (9th) Amendment of the ARC introduced a presumption of liability for companies engaged in certain anticompetitive agreements or conduct, the legislature refrained from setting a presumption as to the (minimum) amount of damages. Courts have been reluctant to take matters into their own hands and have, in the very few cases that have reached the stage at which damages are calculated to date, generally relied on economic experts for the overcharge calculation.

This time, however, the Dortmund Regional Court noted that the legislature as well as the FCJ³³ had encouraged the judiciary to show a "courage to estimate" damages. The Dortmund Regional Court, which is known for being rather plaintiff-friendly in follow-on damages cases,

indeed considered itself in a position to estimate the amount of damages on its own. A signification element that prompted the Court to estimate the damages itself was the rather low amount of the asserted damages of approx. €62,000. In such a case, the Court found commissioning economic experts to determine the exact amount of the damages disproportionate in light of the substantial costs of such opinions, which were noted to regularly be at least in the low six figures.

The Dortmund Regional Court estimated the damages in the present case to amount to a 15% overcharge, taking into account the duration of the cartel, its market coverage, the degree of its organization, and the cartel discipline of its participants. An additional important factor was a clause in the plaintiff's general terms and conditions that governed the contractual relationship between plaintiff and defendant and foresaw a contractual penalty of 15% for the sale of cartelized products. The Court noted that other studies on average cartel-related price overcharges as well as decisions of other European courts would confirm the adequacy of a 15% overcharge.

The decision marks a significant—yet not uncontroversial—step in the further facilitation of damage claims actions. To date, the quantification of the incurred damages poses significant challenges for plaintiffs and requires substantial time and resources—with each party as well as the court commissioning economic experts (often each with a proprietary calculation method and, thus, different results). It remains to be seen whether this approach will be taken in future cases—particularly where the potential damages are higher and there is no contractual penalty clause. An appeal against the decision has been lodged with the Dortmund Higher Regional Court.

³² Schienenkartell (8 O 115/14 (Kart)), Dortmund Regional Court decision of September 30, 2020, only available in German here.

³³ See Schienenkartell II (KZR 24/17), FCJ decision of January 28, 2020, only available in German here. For more details, see our German Competition Law Newsletter February - April 2020, pp. 3-4, available here, as well as our German Competition Law Newsletter March - April 2019, pp. 3-5, available here.

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