TD/RBP/CONF.5/7

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

MODEL LAW ON COMPETITION

UNCTAD Series on Issues in Competition Law and Policy

Draft commentaries to possible elements for articles
of a model law or laws

UNITED NATIONS
Geneva, 2000

NOTE

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Introduction

(i) The Intergovernmental Group of Expert Meeting on Competition Law and Policy, at its meeting held from 7 to 9 June 1999, agreed that UNCTAD should continue to publish as a non-sessional document a revised version of the Commentary to the Model Law, taking into account new legislative developments in the field of competition.

(ii) Accordingly, the present document contains a revised version of the draft possible elements for articles, as contained in Part I of the document "Draft commentaries to possible elements for articles of a Model Law or Laws" (TD/B/RBP/81/Rev.5), and includes a revised version of the Commentary to Articles which was contained in Part II of TD/B/RBP/81/Rev.5, taking into account recent trends in competition legislation adopted worldwide.

(iii) To take into account recent trends in competition legislation adopted worldwide, Part I of the document now includes possible elements for articles on the control of mergers and acquisitions by competition authorities (Possible Elements for Article 5), which were formerly part of the provisions regarding abuse of a dominant position of market power, and, accordingly, Part II (Commentary to Article 5) includes commentaries regarding provisions on the control of mergers and acquisitions.

PART I

Draft possible elements for articles
title of the law:

Elimination or control of restrictive business practices: Antimonopoly Law; Competition Act

POSSIBLE ELEMENTS FOR ARTICLE 1

Objectives or purpose of the law

To control or eliminate restrictive agreements or arrangements among enterprises, or *mergers and* acquisitions or abuse of dominant positions of market power, which limit access to markets or otherwise unduly restrain competition, adversely affecting domestic or international trade or economic development.

POSSIBLE ELEMENTS FOR ARTICLE 2

Definitions and scope of application

I. *Definitions*

(*a*) "Enterprises" means firms, partnerships, corporations, companies, associations and other juridical persons, irrespective of whether created or controlled by private persons or by the State, which engage in commercial activities, and includes their branches, subsidiaries, affiliates or other entities directly or indirectly controlled by them.

(*b*) "Dominant position *of* market power" refers to a situation where an enterprise, either by itself or acting together with a few other enterprises, is in a position to control the relevant market for a particular good or service or group of goods or services.

(*c*) "Relevant market" refers to the line of commerce in which competition has been restrained and to the geographic area involved, defined to include all reasonably substitutable products or services, and all nearby competitors, to which consumers could turn in the short term if the restraint or abuse increased prices by a not insignificant amount.

II. *Scope of application*

(*a*) Applies to all enterprises as defined above, in regard to all their commercial agreements, actions or transactions regarding goods, services or intellectual property.

(*b*) Applies to all natural persons who, acting in a private capacity as owner, manager or employee of an enterprise, authorize, engage in or aid the commission of restrictive practices prohibited by the law.

(*c*) Does not apply to the sovereign acts of the State itself, or to those of local governments, or to acts of enterprises or natural persons which are compelled or supervised by the State or by local governments or branches of government acting within their delegated power.

POSSIBLE ELEMENTS FOR ARTICLE 3

Restrictive agreements or arrangements

I. *Prohibition of the following agreements between rival or potentially rival firms, regardless of whether such agreements are written or oral, formal or informal*:

(*a*) Agreements fixing prices or other terms of sale, including in international trade;

(*b*) Collusive tendering;

(*c*) Market or customer allocation;

(*d*) Restraints on production or sale, including by quota;

(*e*) Concerted refusals to purchase;

(*f*) Concerted refusal to supply;

(*g*) Collective denial of access to an arrangement, or association, which is crucial to competition.

II. *Authorization or exemption*

Practices falling within paragraph I, when properly notified in advance, and when engaged in by firms subject to effective competition, may be authorized or exempted when competition officials conclude that the agreement as a whole will produce net public benefit.

POSSIBLE ELEMENTS FOR ARTICLE 4

Acts or behaviour constituting an abuse of a dominant position of market power

I. *Prohibition of acts or behaviour involving an abuse, of a dominant position of market power*

A prohibition on acts or behaviour involving an abuse or acquisition and abuse of a dominant position of market power:

(i) Where an enterprise, either by itself or acting together with a few other enterprises, is in a position to control a relevant market for a particular good or service, or groups of goods or services;

(ii) Where the acts or behaviour of a dominant enterprise limit access to a relevant market or otherwise unduly restrain competition, having or being likely to have adverse effects on trade or economic development.

II. *Acts or behaviour considered as abusive*:

(*a*) Predatory behaviour towards competitors, such as using below-cost pricing to eliminate competitors;

(*b*) Discriminatory (i.e. unjustifiably differentiated) pricing or terms or conditions in the supply or purchase of goods or services, including by means of the use of pricing policies in transactions between affiliated enterprises which overcharge or undercharge for goods or services purchased or supplied as compared with prices for similar or comparable transactions outside the affiliated enterprises;

(*c*) Fixing the prices at which goods sold can be resold, including those imported and exported;

(*d*) Restrictions on the importation of goods which have been legitimately marked abroad with a trademark identical with or similar to the trademark protected as to identical or similar goods in the importing country where the trademarks in question are of the same origin, i.e. belong to the same owner or are used by enterprises between which there is economic, organizational, managerial or legal interdependence, and where the purpose of such restrictions is to maintain artificially high prices;

(*e*) When not for ensuring the achievement of legitimate business purposes, such as quality, safety, adequate distribution or service:

(i) Partial or complete refusal to deal on an enterprise's customary commercial terms;

(ii) Making the supply of particular goods or services dependent upon the acceptance of restrictions on the distribution or manufacture of competing or other goods;

(iii) Imposing restrictions concerning where, or to whom, or in what form or quantities, goods supplied or other goods may be resold or exported;

(iv) Making the supply of particular goods or services dependent upon the purchase of other goods or services from the supplier or his designee.

III. *Authorization or exemption*

Acts, practices or transactions not absolutely prohibited by the law may be authorized or exempted if they are notified, as described in article 7, before being put into effect, if all relevant facts are truthfully disclosed to competent authorities, if affected parties have an opportunity to be heard, and if it is then determined that the proposed conduct, as altered or regulated if necessary, will be consistent with the objectives of the law.

POSSIBLE ELEMENTS FOR ARTICLE 5

Notification, investigation and prohibition of mergers affecting concentrated markets

I. *Notification*

Mergers, takeovers, joint ventures or other acquisitions of control, including interlocking directorships, whether of a horizontal, vertical, or conglomerate nature, should be notified when:

(i) At least one of the enterprises is established within the country; and

(ii) The resultant market share in the country, or any substantial part of it, relating to any product or service, is likely to create market power, especially in industries where there is a high degree of market concentration, where there are barriers to entry and where there is a lack of substitutes for a product supplied by the incumbent.

II. *Prohibition*

Mergers, takeovers, joint ventures or other acquisitions of control, including interlocking directorships, whether of a horizontal, vertical or conglomerate nature, should be prohibited when:

(i) The proposed transaction substantially increases the ability to exercise market power (e.g. to give the ability to a firm or group of firms acting jointly to profitably maintain prices above competitive levels for a significant period of time); and

(ii) The resultant market share in the country, or any substantial part of it, relating to any product or service, will result in a dominant firm or in a significant reduction of competition in a market dominated by very few firms.

III. *Investigation procedures*

Provisions to allow investigation of mergers, takeovers, joint ventures or other acquisitions of control, including interlocking directorships, whether of a horizontal, vertical or conglomerate nature, which may harm competition could be set out in a regulation regarding concentrations.

In particular, no firm should, in the cases coming under the preceding subsections, effect a merger until the expiration of a (. . .) day waiting period from the date of the

issuance of the receipt of the notification, unless the competition authority shortens the said period or extends it by an additional period of time not exceeding (. . .) days with the consent of the firms concerned, in accordance with the provisions of Possible Elements for Article 7 below. The authority could be empowered to demand documents and testimony from the parties and from enterprises in the affected relevant market or lines of commerce, with the parties losing additional time if their response is late.

If a full hearing before the competition authority or before a tribunal results in a finding against the transaction, acquisitions or mergers could be subject to being prevented or even undone whenever they are likely to lessen competition substantially in a line of commerce in the jurisdiction or in a significant part of the relevant market within the jurisdiction.

POSSIBLE ELEMENTS FOR ARTICLE 6

Some possible aspects of consumer protection

In a number of countries, consumer protection legislation is separate from restrictive business practices legislation.

POSSIBLE ELEMENTS FOR ARTICLE 7

Notification

I. *Notification by enterprises*

1. When practices fall within the scope of articles 3 and 4 and are not prohibited outright, and hence the possibility exists for their authorization, enterprises could be required to notify the practices to the Administering Authority, providing full details as requested.

2. Notification could be made to the Administering Authority by all the parties concerned, or by one or more of the parties acting on behalf of the others, or by any persons properly authorized to act on their behalf.

3. It could be possible for a single agreement to be notified where an enterprise or person is party to restrictive agreements on the same terms with a number of different parties, provided that particulars are also given of all parties, or intended parties, to such agreements.

4. Notification could be made to the Administering Authority where any agreement, arrangement or situation notified under the provisions of the law has been subject to change either in respect of its terms or in respect of the parties, or has been terminated (otherwise than by affluxion of time), or has been abandoned, or if there has been a substantial change in the situation (within ( ) days/months of the event) (immediately).

5. Enterprises could be allowed to seek authorization for agreements or arrangements falling within the scope of articles 3 and 4, and existing on the date of the coming into force of the law, with the proviso that they be notified within (( ) days/months) of such date.

6. The coming into force of agreements notified could depend upon the granting of authorization, or upon expiry of the time period set for such authorization, or provisionally upon notification.

7. All agreements or arrangements not notified could be made subject to the full sanctions of the law, rather than mere revision, if later discovered and deemed illegal.

II. *Action by the Administering Authority*

1. Decision by the Administering Authority (within ( ) days/months of the receipt of full notification of all details), whether authorization is to be denied, granted or granted subject where appropriate to the fulfillment of conditions and obligations.

2. Periodical review procedure for authorizations granted every ( ) months/years, with the possibility of extension, suspension, or the subjecting of an extension to the fulfillment of conditions and obligations.

3. The possibility of withdrawing an authorization could be provided, for instance, if it comes to the attention of the Administering Authority that:

(*a*) The circumstances justifying the granting of the authorization have ceased to exist;

(*b*) The enterprises have failed to meet the conditions and obligations stipulated for the granting of the authorization;

(*c*) Information provided in seeking the authorization was false or misleading.

POSSIBLE ELEMENTS FOR ARTICLE 8

The Administering Authority and its organization

1. The establishment of the Administering Authority and its title.

2. Composition of the Authority, including its chairmanship and number of members, and the manner in which they are appointed, including the authority responsible for their appointment.

3. Qualifications of persons appointed.

4. The tenure of office of the chairman and members of the Authority, for a stated period, with or without the possibility of reappointment, and the manner of filling vacancies.

5. Removal of members of the Authority.

6. Possible immunity of members against prosecution or any claim relating to the performance of their duties or discharge of their functions.

7. The appointment of necessary staff.

POSSIBLE ELEMENTS FOR ARTICLE 9

Functions and powers of the Administering Authority

I. *The functions and powers of the Administering Authority could include (illustrative)*:

(*a*) Making inquiries and investigations, including as a result of receipt of complaints;

(*b*) Taking the necessary decisions, including the imposition of sanctions, or recommending same to a responsible minister;

(*c*) Undertaking studies, publishing reports and providing information to the public;

(*d*) Issuing forms and maintaining a register, or registers, for notifications;

(*e*) Making and issuing regulations;

(*f*) Assisting in the preparation, amending or review of legislation on restrictive business practices, or on related areas of regulation and competition policy;

(*g*) Promoting exchange of information with other States.

II. *Confidentiality*

1. According to information obtained from enterprises containing legitimate business secrets reasonable safeguards to protect its confidentiality.

2. Protecting the identity of persons who provide information to competition authorities and who need confidentiality to protect themselves against economic retaliation.

3. Protecting the deliberations of government in regard to current or still uncompleted matters.

POSSIBLE ELEMENTS FOR ARTICLE 10

Sanctions and relief

I. *The imposition of sanctions, as appropriate, for*:

(i) Violations of the law;

(ii) Failure to comply with decisions or orders of the Administering Authority, or of the appropriate judicial authority;

(iii) Failure to supply information or documents required within the time limits specified;

(iv) Furnishing any information, or making any statement, which the enterprise knows, or has any reason to believe, to be false or misleading in any material sense.

II. *Sanctions could include*:

(i) Fines (in proportion to the secrecy, gravity and clear-cut illegality of offences or in relation to the illicit gain achieved by the challenged activity);

(ii) Imprisonment (in cases of major violations involving flagrant and intentional breach of the law, or of an enforcement decree, by a natural person);

(iii) Interim orders or injunctions;

(iv) Permanent or long-term orders to cease and desist or to remedy a violation by positive conduct, public disclosure or apology, etc.;

(v) Divestiture (in regard to completed mergers or acquisitions), or rescission (in regard to certain mergers, acquisitions or restrictive contracts);

(vi) Restitution to injured consumers;

(vii) Treatment of the administrative or judicial finding or illegality as prima facie evidence of liability in all damage actions by injured persons.

POSSIBLE ELEMENTS FOR ARTICLE 11

Appeals

1. Request for review by the Administering Authority of its decisions in the light of changed circumstances.

2. Affording the possibility for any enterprise or individual to appeal within ( ) days to the (appropriate judicial authority) against the whole or any part of the decision of the Administering Authority, (or) on any substantive point of law.

POSSIBLE ELEMENTS FOR ARTICLE 12

Actions for damages

To afford a person, or the State on behalf of the person who, or an enterprise which, suffers loss or damages by an act or omission of any enterprise or individual in contravention of the provisions of the law, to be entitled to recover the amount of the loss or damage (including costs and interest) by legal action before the appropriate judicial authorities.

PART II

COMMENTARY TO ARTICLES

1. In line with the Agreed Conclusions of the Intergovernmental Group of Experts on Competition Law and Policy adopted at its meeting held from 7 to 9 June 1999, the UNCTAD secretariat has prepared revised commentaries to the draft possible elements for articles as contained in Part I, taking into account recent international legislative developments.

COMMENTARY TO THE TITLE OF THE LAW

TITLE OF THE LAW

2. The draft possible elements for articles consider three alternatives for the title of the law, namely: "Elimination or Control of Restrictive Business Practices",[1] "Anti-monopoly Law"[2] and "Competition Act".[3]

3. There is no common rule for the title of the RBP laws. The different titles adopted generally reflect the objectives and hierarchy of the law, as well as the legal traditions of the countries concerned. Box 1 sets out the competition legislation adopted in most of the United Nations Member States, with its year of adoption. Examples of titles of the competition laws are given in annex 1 to the commentaries.

Box 1

Competition legislation adopted or in preparation in the United Nations Member States and other entities (with year of adoption)

Africa	Asia and Pacific	Countries in transition	Latin America and Caribbean	OECD countries
Algeria (1995)	China (1993)	Azerbaijan**	Argentina (1980)	Australia (1974)
Benin*	Fiji (1993)	Belarus **	Bolivia*	Austria (1988)
Burkina Faso*	India (1969)	Bulgaria (1991)	Brazil (rev. 1994)	Belgium (1991)
Cameroon*	Indonesia (1999)	Croatia (1995)	Chile (1973, rev. 1980)	Canada (1889)
Côte d'Ivoire (1978)	Jordan*	Georgia**	Colombia (1992)	Czech Republic (1991)
Egypt*	Malaysia*	Kazakhstan**	Costa Rica (1992)	Denmark (1997)
Gabon (1989)	Pakistan (1970)	Kyrgyzstan**	Dominican Republic*	European Union (1957)
Ghana*	Philippines*	Lithuania (1992)	El Salvador*	Finland (1992, rev. 1998
Kenya (1988)	Sri Lanka (1987)	Mongolia (1993)	Guatemala*	France (1977, rev. 1986)

Africa	Asia and Pacific	Countries in transition	Latin America and Caribbean	OECD countries
Malawi (1998)	Taiwan Province of China (1992)	Republic of Moldova**	Honduras*	Germany (1957, rev. 1998)
Mali (1998)	Thailand (1979) and (1999)	Romania (1996)	Jamaica (1993)	Greece (1977, rev. 1995)
Mauritius*	Viet Nam*	Russian Federation (1991)	Nicaragua*	Hungary (1996)
Morocco (1999)		Slovakia (1994)	Panama (1996)	Ireland (1991, rev. 1996)
Senegal (1994)		Slovenia (1991)	Paraguay*	Italy (1990)
South Africa (1955, amended 1979)		Tajikistan**	Peru (1990)	Japan (1947, rev. 1998)
Togo*		Turkmenistan**	Trinidad and Tobago*	Luxembourg (1970, rev. 1993)
Tunisia (1991)		Ukraine**	Venezuela (1991)	Mexico (1992)
United Republic of Tanzania (1994)		Uzbekistan**		Netherlands (1997)
Zambia (1994)				New Zealand (1986)
Zimbabwe (1997)				Norway (1993)
				Poland (1990)
				Portugal (1993)
				Republic of Korea (1980)
				Spain (1989, rev. 1996)
				Sweden (1993)
				Switzerland (1985, rev. 1995)
				Turkey (1994)
				United Kingdom (1890)
				United States (1890, rev. 1976)

* Competition law in preparation.

** Most CIS countries have established an antimonopoly committee within the Ministry of Economy or Finance.

COMMENTARY TO ARTICLE 1

Objectives or purposes of the law

To control or eliminate restrictive agreements or arrangements among enterprises, or mergers and acquisitions or abuse of dominant positions of market power, which limit access to markets or otherwise unduly restrain competition, adversely affecting domestic or international trade or economic development.

4. This article has been framed in accordance with section E, paragraph 2, of the Set of Principles and Rules, which sets out the primary principle on which States should base their restrictive business practices legislation. As in section A of the Set of Principles and Rules, States may wish to indicate other specific objectives of the law, such as the creation, encouragement and protection of competition; control of the concentration of capital and/or economic power; encouragement of innovation; protection and promotion of social welfare and in particular the interests of consumers, etc., and take into account the impact of restrictive business practices on their trade and development.

5. Approaches from various country legislation include, for example, the following objectives: in Algeria: "the organization and the promotion of free competition and the definition of the rules for its protection for the purpose of stimulating economic efficiency and the goodwill of consumers";[4] in Canada: "to maintain and encourage competition in Canada in order to promote the efficiency and adaptability of the Canadian economy, in order to expand opportunities for Canadian participation in world markets while at the same time recognizing the role of foreign competition in Canada, in order to ensure that the small and medium-sized enterprises have an equitable opportunity to participate in the Canadian economy and in order to provide consumers with competitive prices and product choices";[5] in Denmark: "to promote competition and thus strengthen the efficiency of production and distribution of goods and services etc. through the greatest possible transparency of competitive conditions";[6] in Hungary: "the maintenance of competition in the market ensuring economic efficiency and social progress";[7] in Mongolia: "to regulate relations connected with prohibiting and restricting state control over competition of economic entities in the market, monopoly and other activities impeding fair competition";[8] in Norway: "to achieve efficiently utilization of society's resources by providing the necessary conditions for effective competition";[9] in Panama: "to protect and guarantee the process of free economic competition and free concurrence, eliminating monopolistic practices and other restrictions in the efficient functioning of markets and services, and for safeguarding the superior interest of consumers";[10] in Peru: "to eliminate monopolistic, controlist and restrictive practices affecting free competition, and procuring development of private initiative and the benefit of consumers";[11] in the Russian Federation: "to prevent, limit and suppress monopolistic activity and unfair competition, and ensure conditions for the creation and efficient operation of commodity markets";[12] in Sweden: "to eliminate and counteract obstacles to effective competition in the field of production of and trade in goods, services and other products";[13] in Switzerland: "to limit harmful consequences to the economic or social order imputable to cartels and other restraints on competition, and in consequence to promote competition in a market based on a liberal regime";[14] in the United States: "a comprehensive charter of economic liberty aimed at preserving free and unfettered competition as the rule of trade. It rests on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress, while at the same time providing an environment conducive to the preservation of our democratic political and social institutions";[15] in Venezuela: "to promote and protect the exercise of free competition" as well as "efficiency that benefits the producers and consumers";[16] the Andean Community regulation refers to "the prevention and correction of distortions originated by business behaviours that impede, limit or falsify competition".[17] Concerning the European Community, the Treaty establishing the European Economic Community considers that "the institution of a system ensuring that competition in the common market is not distorted" constitutes one of the necessary means for promoting "a harmonious development of economic activities, a continuous and balanced expansion" and "an accelerated raising of the standard of living" within the Community.[18] A decision adopted by the Mercosur has as its objective "to assure equitable competition conditions within the economic agents from the Mercosur".[19]

6. The text proposed above refers to "control", which is in the title of the Set of Principles and Rules, and to "restrictive agreements and abuses of dominant positions of market power", which are the practices set out in sections C and D of the Set. The phrase "limit access to markets" refers to action designed to impede or prevent entry of actual or potential competitors. The term "unduly" implies that the effects of the restrictions must be perceptible, as well as unreasonable or serious, before the prohibition becomes applicable. This concept is present in the laws of many countries, such as Australia,[20] India, Mexico,[21] the Republic of Korea, the Russian Federation, the United Kingdom, and the European Community.[22]

7. In other legislation, certain cooperation agreements between small and medium-size enterprises, where such arrangements are designed to promote the efficiency and competitiveness of such enterprises vis-à-vis large enterprises, can be authorized. This is the case in Germany and Japan. Also, in Japan enterprises falling in the small and medium-size categories are defined on the basis of paid-in capital and number of employees.

8. It would be up to States to decide the manner in which any *de minimis* rule should be applied. There are essentially two alternatives. On the one hand, it can be left to the Administering Authority to decide on the basis of an evaluation of agreements or arrangements notified. In such case, the formulation of standards for exemption would be the responsibility of the Administering Authority. On the other hand, where the focus of the law is on considerations of "national interest", restrictions are examined primarily in the context of whether they have or are likely to have, on balance, adverse effects on overall economic development.[23] This concept, albeit with varying nuances and emphasis, has found expression in exist-

ing restrictive business practices legislation in both developed and developing countries.[24]

COMMENTARY TO ARTICLE 2

Definitions and scope of application

I. *Definitions*

(*a*) "Enterprises" means firms, partnerships, corporations, companies, associations and other juridical persons, irrespective of whether created or controlled by private persons or by the State, which engage in commercial activities, and includes their branches, subsidiaries, affiliates or other entities directly or indirectly controlled by them.

9. The definition of "enterprises" is based on section B (i) (3) of the Set of Principles and Rules.

(*b*) "Dominant position of market power" refers to a situation where an enterprise, either by itself or acting together with a few other enterprises, is in a position to control the relevant market for a particular good or service or group of goods or services.

10. The definition of "dominant position of market power" is based on section B (i) (2) of the Set of Principles and Rules. For further comments on this issue, see paragraphs 55 to 60 below.

(*c*) "Relevant market" refers to the line of commerce in which competition has been restrained and to the geographic area involved, defined to include all reasonably substitutable products or services, and all nearby competitors, to which consumers could turn in the short term if the restraint or abuse increased prices by a not insignificant amount.

11. The definitions in the Set have been expanded to include one of "relevant market". The approach to this definition is that developed in the United States merger guidelines, which are generally accepted by antitrust economists in most countries.[25]

12. Defining the "relevant market" is in simple terms identifying the particular product/services or class of products produced or services rendered by an enterprise(s) in a given geographic area. Box 2 provides the basic reasoning regarding the relevant market and the market definition in competition law and policy. The United States Supreme Court has defined the relevant market as "the area of effective competition, within which the defendant operates".[26] Isolating the area of effective competition necessitates inquiry into both the relevant product market and the geographical market affected. It is also necessary to point out that defining the relevant market outlines the competitive situation the firm faces. Also, many jurisdictions, including the United Kingdom, allow for the possibility of taking into account supply side substitution when defining the relevant market. This is all the more important when the law involved implies actions which follow from market share alone. For example, some countries require "monopolies" (defined as firms having, say, a 30 or 40 per cent market share) to submit to price control and/or information provision.[27]

13. The product market (reference to product includes services) is the first element that must be taken into account for determining the relevant market. In practice, two closely related and complementary tests have been applied in the identification of the relevant product/service market, namely the reasonable interchangeability of use and the cross-elasticity of demand. In the application of the first criterion, two factors are generally taken into account, namely, whether or not the end use of the product and its substitutes are essentially the same, or whether the physical characteristics (or technical qualities) are similar enough to allow customers to switch easily from one to another. In the application of the cross-elasticity test, the factor of price is central. It involves inquiry into the proportionate amount of increase in the quantities demand of one commodity as a result of a proportionate increase in the price of another commodity. In a highly cross-elastic market a slight increase in the price of one product will prompt customers to switch to the other, thus indicating that the products in question compete in the same market while a low cross-elasticity would indicate the contrary, i.e. that the products have separate markets.

14. The geographical market is the second element that must be taken into account for determining the relevant market. It may be described broadly as the area in which sellers of a particular product or service operate. It can also be defined as one in which sellers of a particular product or service can operate without serious hindrance.[28] The relevant geographical market may be limited—for example, a small city—or it may be the whole international market. In between it is possible to consider other alternatives, such as a number of cities, a province, a State, a region consisting of a number of States. For example in the context of controlling restrictive business practices in a regional economic grouping such as the European Community, the relevant geographical market is the "Common Market or a substantial part thereof". In this connection, the Court of Justice in the "European Sugar Industry" case[29] found that Belgium, Luxembourg, the Netherlands and the southern part of the then Federal Republic of Germany constituted each of them "substantial parts of the Common Market" (i.e. the relevant geographical market). Furthermore, the Court found that it was necessary to take into consideration, in particular, the pattern and volume of production and consumption of the product and the economic habits and possibilities open to sellers and buyers. For determining the geographical market, a demand-oriented approach can also be applied. Through this approach, the relevant geographical market is the area in which the reasonable consumer or buyer usually covers his demand.

15. A number of factors are involved in determining the relevant geographical market including price disadvantages arising from transportation costs, degree of inconvenience in obtaining goods or services, choices available to consumers, and the functional level at which enterprises operate.

Box 2

Relevant market and market definition in competition law and policy

The relevant market, the place where supply and demand interact, constitutes a framework for analysis which highlights the competition constraints facing the firms concerned. The objective in defining the relevant market is to identify the firms that compete with each other in a given product and geographical area in order to determine whether other firms can effectively constrain the prices of the alleged monopolist. In other words, the task is to identify the competitors of these firms which are genuinely able to affect their behaviour and prevent them from acting independently of all real competitive pressure. Thus, definition of the relevant product and geographical markets is a key step in the analysis of many competition law cases.

The relevant product market is defined through the process the identification of the range of close substitutes for a product supplied by firms whose behaviour is under examination: in the wording of the United States Supreme Court, "the market is composed of products that have reasonable interchangeability for the purposes for which they are produced—price, use and qualities considered".

As globalization progresses, relevant geographical market can be local, national, international or even global, depending on the particular product under examination, the nature of alternatives in the supply of the product, and the presence or absence of specific factors (e.g. transport costs, tariffs or other regulatory barriers and measures) that prevent imports from counteracting the exercise of market power domestically.

In the EU, for the definition of the relevant market, the competition authorities take account of a number of factors, such as the reactions of economic operators to relative price movements, the sociocultural characteristics of demand and the presence or absence of barriers to entry, such as transport costs. The same authorities tend to focus on demand trends in their analyses, and this impacts on the geographical dimension of the relevant market.

Sources: European Commission, OECD, UNCTAD and WTO.

II. *Scope of application*

(*a*) Applies to all enterprises as defined above, in regard to all their commercial agreements, actions or transactions regarding goods, services or intellectual property.

(*b*) Applies to all natural persons who, acting in a private capacity as owner, manager or employee of an enterprise, authorize, engage in or aid the commission of restrictive practices prohibited by the law.

(*c*) Does not apply to the sovereign acts of the State itself, or to those of local governments, or to acts of enterprises or natural persons which are compelled or supervised by the State or by local governments or branches of government acting within their delegated power. Problems may arise when enterprises or natural persons belonging to the State or to local governments or when enterprises or natural persons which are compelled or supervised (i.e. regulated) in the name of the public interest by the State or by local governments or branches of government acting within their delegated power act beyond their delegated power. Box 3 addresses the interaction of competition law and policy and regulation.

16. The scope of application takes into account section B (ii) of the Set. It has been expanded to clarify the application of the law to natural persons, but not to government officials acting for the Government.[30] However, a natural person is not an "enterprise", unless incorporated as a "personal corporation". The model law could imply that an agreement between a Company and its own managing director is an agreement between two "enterprises" and thus a conspiracy. Legal analysis nearly everywhere concludes that this should not be the case.

17. Although virtually all international restrictive business practice codes, such as competition regulations of the European Community, the Andean Community Decision on Practices which Restrict Competition, and the MERCOSUR Decision on the Protection of Competition, apply only to enterprises, most national RBP laws apply to natural persons as well as to enterprises, since deterrence and relief can be more effective at the national level if owners or executives of enterprises can be held personally responsible for the violations they engage in or authorize, such as is the case of the United Kingdom under its Restrictive Practices Act.[31] It is also important to mention that professional associations may also be considered as "enterprises", for the purposes of competition laws.

18. The scope of application has also been clarified to exclude the sovereign acts of local governments, to whom the power to regulate has been delegated, and to protect the acts of private persons when their conduct is compelled or supervised by Governments. It should be mentioned, however, that in section B (7) of the Set of Principles and Rules and in most countries having modern restrictive business practices legislation, the law covers State-owned enterprises in the same way as private firms.[32]

Box 3

Competition law and policy and regulation

Basically, competition law and policy and regulation aim at defending the public interest against monopoly power. If both provide tools to a Government to fulfil this objective, they vary in scope and types of intervention. Competition law and regulation are not identical. There are four ways in which competition law and policy and regulatory problems can interact:

- *Regulation can contradict competition policy.* Regulations may have encouraged, or even required, conduct or conditions that would otherwise be in violation of the competition law. For example, regulations may have permitted price coordination, prevented advertising or required territorial market division. Other examples include laws banning sales below costs, which purport to promote competition but are often interpreted in anti-competitive ways, and the very broad category of regulations that restrict competition more than necessary to achieve the regulatory goals. Modification or suppression of these regulations compels firms affected to change their habits and expectations.
- *Regulation can replace competition policy.* In natural monopolies, regulation may try to control market power directly, by setting prices (price caps) and controlling entry and access. Changes in technology and other institutions may lead to reconsideration of the basic premises in support of regulation, i.e. that competition policy and institutions would be inadequate to the task of preventing monopoly and the exercise of market power.
- *Regulation can reproduce competition law and policy.* Coordination and abuse in an industry may be prevented by regulation and regulators as competition law and policy do. For example, regulations may set standards of fair competition or tendering rules to ensure competitive bidding. However, different regulators may apply different standards, and changes or differences in regulatory institutions may reveal that seemingly duplicate policies may have led to different practical outcomes.
- *Regulation can use competition institutions' methods*. Instruments to achieve regulatory objectives can be designed to take advantage of market incentives and competitive dynamics. Coordination may be necessary in order to ensure that these instruments work as intended in the context of competition law requirements.

Sources: OECD and European Commission.

19. The reference to intellectual property is consistent with virtually all antitrust laws, which treat licences of technology as "agreements" and scrutinize them for restrictions or abuses like any other agreement, except that the legal exclusivity granted by the State to inventors may justify some restrictions that would not be acceptable in other contexts.

20. It should be noted that in several countries, intellectual property[33] rights have given rise to competition problems. In view of the competition problems arising from the exercise of copyright, patents and trademark rights, several countries, such as Spain[34] and the United Kingdom,[35] as well as the European Union,[36] have considered it necessary to draw up specific regulations dealing with intellectual property rights in relation to competition. The United States has also adopted guidelines intended to assist those who need to predict whether the enforcement agencies will challenge a practice as anti-competitive.[37] It is also important to take into account the provision for control of anti-competitive practices in contractual licences included in the TRIPs Agreement.[38]

COMMENTARY TO ARTICLE 3

Restrictive agreements or arrangements

I. *Prohibition of the following agreements between rival or potentially rival firms, regardless of whether such agreements are written or oral, formal or informal*:

(*a*) Agreements fixing prices or other terms of sale, including in international trade;

(*b*) Collusive tendering;

(*c*) Market or customer allocation;

(*d*) Restraints on production or sales, including by quota;

(*e*) Concerted refusals to purchase;

(*f*) Concerted refusal to supply;

(*g*) Collective denial of access to an arrangement, or association, which is crucial to competition.

21. The elements of this article are based upon section D, paragraph 3, of the Set of Principles and Rules and, as in the case of that paragraph, a prohibition-in-principle approach has been generally followed. Such an approach is embodied, or appears to be evolving, in the restrictive practice laws of many countries. See box4 for most common anti-competitive practices that are likely to lead to an investigation.

Box 4

Anti-competitive practices likely to lead to an investigation

- A secret cartel between competing firms governing prices or market shares;
- A pricing regime pursued by a dominant firm not with the requirements of the market in mind, but with a view to driving a smaller competitor out of the market ("predatory pricing");
- A dominant firm's refusal to supply;
- A distribution system which rigidly divides the nationwide market into separate territories and which prevents parallel imports of the contract product.

22. *Agreements among enterprises* are basically of two types, horizontal and vertical. Horizontal agreements are those concluded between enterprises engaged in broadly the same activities, i.e. between producers or between wholesalers or between retailers dealing in similar kinds of products. Vertical agreements are those between enterprises at different stages of the manufacturing and distribution process, for example, between manufacturers of components and manufacturers of products incorporating those goods, between producers and wholesalers, or between producers, wholesalers and retailers. Particular agreements can be both horizontal and vertical, as in price-fixing agreements. *Engaged in rival activities* refers to competing enterprises at the horizontal level. *Potentially rival activities* refers to a situation where the other party or parties are capable and likely of engaging in the same kind of activity, for example, a distributor of components may also be a producer of other components.

23. Agreements among enterprises are prohibited in principle in the Set, "except when dealing with each other in the context of an economic entity wherein they are under common control, including through ownership, or otherwise not able to act independently of each other" (section D.3). It should be noted that a prevailing number of jurisdictions have ruled that firms under common ownership or control are not *rival or potentially rival firms*.[39] In the United States, while some lower courts had this rule to include companies which are majority-owned by another firm,[40] the Supreme Court has gone no further than deciding that a parent and its wholly-owned subsidiary are incapable of conspiring for purposes of the Sherman Act.[41]

24. Agreements or arrangements, whether they are *written or oral, formal or informal*, would be covered by the prohibition. This includes any agreement, whether or not it was intended to be legally binding. In this context, the legislation of Pakistan defines an agreement as including "any arrangement or understanding, whether or not in writing, and whether or not it is or is intended to be legally enforceable".[42] A similar definition is to be found in Algeria,[43] India[44] and South Africa.[45] The legislation in Poland[46] and the Russian Federation[47] refers to "agreements in any form". The Law of Spain[48] which is inspired by the European Community rules, has a generous wording covering multiple possibilities that go beyond agreements, namely "collective decisions or recommendations, or concerted or consciously parallel practices". A similar approach is followed by Côte d'Ivoire,[49] Hungary,[50] Peru[51] and Venezuela,[52] as well as by the Andean Community[53] and MERCOSUR legislation.[54]

25. Where arrangements are in writing, there can be no legal controversy as to their existence, although there might be controversy about their meaning. However, enterprises frequently refrain from entering into written agreements, particularly where it is prohibited by law. Informal or oral agreements raise the problem of proof, since it has to be established that some form of communication or shared knowledge of business decisions has taken place among enterprises, leading to concerted action or parallelism of behaviour on their part. In consequence, proof of concerted action in such instances is based on circumstantial evidence. Parallelism of action is a strong indication of such behaviour, but might not be regarded as conclusive evidence. An additional and important way for proving the existence of an oral agreement, far superior to evidence of parallel behaviour, is by direct testimony of witnesses.

26. Establishing whether parallel behaviour is a result of independent business decisions or tacit agreement would probably necessitate an inquiry into the market structure, price differentials in relation to production costs, timing of decisions and other indications of uniformity of enterprises behaviour in a particular product market. A parallel fall in prices can be evidence of healthy competition, while parallel increases should amount to evidence of tacit or other agreement or arrangement sufficient to shift the evidential burden to the enterprise or enterprises involved, which ought in turn to produce some evidence to the contrary as a matter of common prudence.[55] Another way in which competitive but parallel conduct might be distinguished from conduct that is the result of an anti-competitive agreement is to inquire whether the conduct of a particular firm would be in its own interest in the absence of an assurance that its competitors would act similarly. Nevertheless, it is also important to mention that parallel price increases, particularly during periods of general inflation are as consistent with competition as with collusion and provide no strong evidence of anti-competitive behaviour.

27. The restrictive business practices listed in (*a*) to (*g*) of article 3 are given by way of example and should not be seen as an exhaustive list of practices to be prohibited.

Although the listing comprises the most common cases of restrictive practices, it can be expanded to other possibilities and become illustrative by introducing between the terms "prohibition" and "of the following agreements" the expressions "among other possibilities", "in particular", such as for example in Hungary,[56] or "among others", such as for example in the Colombian legislation;[57] or by adding "other cases with an equivalent effect", as is done in the Andean Community Regulation.[58] By doing so, article 3 becomes a "general clause" that covers not only those agreements listed under (*a*) to (*g*) but also others not expressly mentioned which the Administrative Authority might consider restrictive as well.

28. Furthermore, in some countries, such as in India, there is a presumption that monopolistic trade practices are prejudicial to the public interest and, therefore, are prohibited, subject to the defences stipulated in the law.[59]

29. A distinctive feature of the United States legislation developed in the application of Section 1 of the Sherman Act is the "per se" approach. While the guiding principle for judging anti-competitive behaviour is the "rule of reason" (unreasonable restraint being the target of control determined on the basis of inquiry into the purpose and effects of an alleged restraint), the Supreme Court has held that "there are certain agreements or practices which, because of their pernicious effect on competition and lack of any redeeming virtue, are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use".[60] Restrictions considered "per se" violations generally include price fixing, horizontal division of markets and consumers, as well as *horizontal concerted refusals to deal, and bid-rigging.*

30. It is to be noted that the European Community also considers a priori that agreements between undertakings (or concerted practices or decisions by associations of undertakings) that restrict competition are (due to the effect they may have in trade between member States) prohibited (article 81 (1) of the Treaty of Rome) and automatically void—"nuls de plein droit"—(article 81 (2) of the Treaty of Rome). It also considers that, under certain circumstances, those agreements could be exempted from the prohibition of article 81 (1), if they fulfil the following conditions (article 81 (3) of the Treaty of Rome):

(*a*) Contribute to improving the production or distribution of goods or to promote technical or economic progress;

(*b*) Allow the consumers a fair share of the resulting benefit;

(*c*) Do not impose on the undertakings concerned restrictions (on competition) which are not indispensable to the attainment of these objectives; and

(*d*) Do not afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

31. A special feature of Russian legislation is the absence of a "per se" approach in the ban on agreements; in other words, the antimonopoly authorities in the Russian Federation may prohibit agreements if they determine that such agreements have or may have the result of substantially restricting competition.[61]

32. The Australian legislation prohibits most price fixing agreements, boycotts and some forms of exclusive dealing. Moreover, this is also the case of India, where, under the Monopolies and Restrictive Trade Practices Act, the term or condition of a contract for the sale of goods or any agreement which provides for minimum prices to be charged on the resale of goods are prohibited per se.[62]

COMMENTARY ON THE ILLUSTRATIVE LIST OF PRACTICES GENERALLY PROHIBITED

(a) *Agreements fixing prices or other terms of sale, including in international trade*

33. The Set of Principles and Rules, in paragraph D.3 (a) calls for the prohibition of "agreements fixing prices, including as to exports and imports".

34. Price fixing is among the most common forms of restrictive business practices and, irrespective of whether it involves goods or services, is considered as per se violation in many countries.[63] Price fixing can occur at any level in the production and distribution process. It may involve agreements as to prices of primary goods, intermediary inputs or finished products. It may also involve agreements relating to specific forms of price computation, including the granting of discounts and rebates, drawing up of price lists and variations therefrom, and exchange of price information.

35. Price fixing may be engaged in by enterprises as an isolated practice or it may be part of a larger collusive agreement among enterprises regulating most of the trading activities of members, involving for example collusive tendering, market and customer allocation agreements, sales and production quotas, etc. Also, agreements fixing prices or other terms of sales prohibited under this paragraph may include those relating to the demand side, such as is the case of cartels aimed at or having the effect of enforcing buying power.

36. Concerning international trade, it is worth pointing out that while price-fixing with respect to goods and services sold domestically has been subject to strict control, under restrictive business practices legislation price-fixing with respect to exports has, by and large, been permitted on the grounds that such activities do not affect the domestic market. In some countries the legislation specifically exempts export cartels on condition that they are notified and registered and that they do not adversely affect the domestic market. This is the case, for example, in the Federal Republic of Germany, the Netherlands, Peru, the United Kingdom and the United States.[64] Participation of national industries in international cartels is prohibited by the legislation of the United States and other countries.[65]

(b) *Collusive tendering*[66]

37. Collusive tendering is inherently anti-competitive, since it contravenes the very purpose of inviting tenders, which is to procure goods or services on the most favourable prices and conditions. Collusive tendering may take different forms, namely: agreements to submit identical bids, agreements as to who shall submit the lowest bid, agreements for the submission of cover bids (voluntary inflated bids), agreements not to bid against each other, agreements on common norms to calculate prices or terms on bids, agreements to "squeeze out" outside bidders, agreements designating bid winners in advance on a rotational basis, or on a geographical or customer allocation basis. Such agreements may provide for a system of compensation to unsuccessful bidders based on a certain percentage of profits of successful bidders to divide among unsuccessful bidders at the end of a certain period.

38. Collusive tendering is illegal in most countries. Even countries that do not have specific restrictive business practices laws often have special legislation on tenders. Most countries treat collusive tendering more severely than other horizontal agreements, because of its fraudulent aspects and particularly its adverse effects on government purchases and public spending. In the People's Republic of China, the bid will be declared null and void and, according to circumstances, a fine will be imposed. In Kenya, for example, collusive tendering is considered a criminal offence punishable by up to three years' imprisonment where two or more persons tender for the supply or purchase of goods or services at a price, or on terms, agreed or arranged between them, except for joint tenders disclosed to, and acceptable to, the persons inviting the tender.[67] In Sweden, there are no special provisions concerning collusive tendering in the Competition Act. This kind of horizontal cooperation falls under the general prohibition of anti-competitive agreements or concerted practices.[68]

(c) *Market or customer allocation*

39. Customer and market allocation arrangements among enterprises involve the assignment to particular enterprises of particular customers or markets for the products or services in question. Such arrangements are designed in particular to strengthen or maintain particular trading patterns by competitors forgoing competition in respect of each other's customers or markets. Such arrangements can be restrictive to a particular line of products, or to a particular type of customer.

40. Customer allocation arrangements occur both in domestic and international trade; in the latter case they frequently involve international market divisions on a geographical basis, reflecting previously established supplier-buyer relationships. Enterprises engaging in such agreements virtually always agree not to compete in each other's home market. In addition, market allocation arrangements can be designed specifically for this purpose.

(d) *Restraints on production or sales, including by quota*

41. Market-sharing arrangements may also be devised on the basis of quantity allocations rather than on the basis of territories or customers. Such restrictions are often applied in sectors where there is surplus capacity or where the object is to raise prices. Under such schemes, enterprises frequently agree to limit supplies to a proportion of their previous sales, and in order to enforce this, a pooling arrangement is often created whereby enterprises selling in excess of their quota are required to make payments to the pool in order to compensate those selling below their quotas.

(e) *Concerted refusals to purchase*

(f) *Concerted refusal to supply*

42. Concerted refusals to purchase or to supply, or the threat thereof, are one of the most common means employed to coerce those who are not members of a group to follow a prescribed course of action. Group boycotts may be horizontal (i.e. cartel members may agree among themselves not to sell to or buy from certain customers), or vertical (involving agreements between parties at different levels of the production and distribution stages refusing to deal with a third party, normally a competitor to one of the above). For a brief review of the treatment of vertical restraints by competition law and policy see box 5. Vertical restraints can also be considered in relationship to the position of a firm on the market: see paragraph 60 below.

43. Boycotts are considered illegal in a number of countries, particularly when they are designed to enforce other arrangements, such as collective resale price maintenance and collective exclusive dealing arrangements. For example, boycotts or stop lists for collective enforcement of conditions as to resale price maintenance are prohibited in the United Kingdom. In India, agreements which restrict or withhold output of goods[69] are subject to notification, as are agreements designed to enforce any other agreements.[70] In the United States, a Court of Appeals held that London reinsurers could be tried for an illegal boycott when such reinsurers agreed not to deal with any United States insurance companies which offered insurance covering accidents not discovered and claimed on while the policies were in effect, and thus forced adoption of uniform "claims made" policies throughout the United States.[71]

44. Concerted refusals to supply, whether it be to a domestic buyer or an importer, are also a refusal to deal. Refusals to supply potential importers are usually the result of customer allocation arrangements whereby suppliers agree not to supply other than designated buyers. They can also be a result of collective vertical arrangements between buyers and sellers, including importers and exporters.

45. The European Commission has developed a systematic policy concerning "parallel" imports or exports. Among others, it considers that, although existing exclusive distribution agreements (which could be accepted due to rationalization), parallel trade must be always authorized because it constitutes the only guarantee against member States' market compartmentalization, and the application of discriminatory policies concerning prices. The exemption rules on exclusive agreements contained in Commission Regulation No. 1983/83 explicitly prohibits all restrictions on parallel imports and also includes a provision stating that every exclusive dealer is responsible for losses coming from a client outside its territory.[72]

Box 5

Vertical restraints and competition law and policy

The concept of vertical restraints refers to certain types of business practices that relate to the resale of products by manufacturers or suppliers and are thus embodied in agreements between operators on a line of business situated at different stages of the value-added chain. They include resale price maintenance (RPM), exclusive dealing and exclusive territory or territorial (geographical) market restrictions on distributors. While the first has remained highly controversial among economists, exclusivity practices raise fewer concerns.

- *RPM. This is basically found in an agreement among retailers, enforced by the producers, not to compete on prices (thereby creating a "network"). Generally RPM refers to the setting of retail* prices by the original manufacturer or supplier. It is often called by the euphemism "fair trade" in North America or Europe. In some cases, a supplier can exercise control over the product market. In concentrated markets (e.g. where there are few "networks" offering the same type of goods of different brands) or when market power exists (i.e. where inter-brand competition is absent, as is frequently the case in developing countries), competition authorities should request detailed justifications, on efficiency grounds, by producers willing to fix retail prices or should seek to remove any regulatory barriers inhibiting entry by new operators. RPM is an area where competition policies in mature and competitive markets and developing markets may differ sharply.
- Exclusive dealing. This is found in an agreement between a manufacturer who offers a sales contract conditional on the buyer's accepting not to deal in the goods of a competitor. The restriction is placed on the firm's choice of buyers or suppliers.
- Exclusive territory or territorial market restrictions. This is found in an agreement by which a manufacturer restricts the retailers to competing on the distribution of its products.
- Tying arrangements. These are agreements by which a manufacturer restricts the source of supplies for particular inputs used by retailers.

In many jurisdictions, vertical restraints are subject to a "rule-of-reason" approach, which reflects the fact that such restraints are not always harmful and may, actually, be beneficial in particular market structure circumstances. Non-price vertical restraints are rarely opposed by competition authorities.

(g) *Collective denial of access to an arrangement, or association, which is crucial to competition*

46. Membership of professional and commercial associations is common in the production and sale of goods and services. Such associations usually have certain rules of admittance and under normal circumstances those who meet such requirements are allowed access. However, admittance rules can be drawn up in such a manner as to exclude certain potential competitors either by discriminating against them or acting as a "closed shop".[73] Nevertheless, as ruled in the United States, valid professional concerns can justify exclusions of individuals from professional associations.[74]

47. Collective denial of access to an arrangement may also take the form of denying access to a facility that is necessary in order to compete effectively in the market.[75]

II. *Authorization*

Practices falling within paragraph I, when properly notified in advance, and when made by firms subject to effective competition, may be authorized when competition officials conclude that the agreement as a whole will produce net public benefit.

48. Paragraph II of proposed article 3 deals with authorization, which is the way to vest national authorities with discretionary powers to assess national interests vis-à-vis the effects of certain practices on trade or economic development.[76] Enterprises intending to enter into restrictive agreements or arrangements of the type falling under paragraph I would accordingly need to notify the national authority of all the relevant facts of the agreement in order to obtain authorization in accordance with the procedure described in article 6. It is to be noted that the policy whereby competition agencies may authorize firms to engage in certain conduct if the agency determines that such practices produce a "net public benefit" is opposed to one in which agencies authorize practices that "do not produce public harm". Proving that the practice produces "net public benefit" may well place an unjustified burden of proof on firms and result in the prohibition of pro-competitive practices.[77] Whatever the approach followed in a particular legislation ("produce net public benefit" or "do not produce public harm"), authorization procedures must be characterized by transparency.

49. As an example, in the European Community, article 81 (1) of the Treaty of Rome prohibits and declares

"incompatible with the common market: all arrangements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market". However the prohibition is not absolute, since article 81 (3) declares that the provisions of paragraph (1) may be declared inapplicable if such agreements or decisions contribute to "improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit", with the provision that they do not:

> "(*a*) Impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
>
> (*b*) Afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question."

50. The European Commission and the Court of Justice of the European Communities are nevertheless generally reticent to authorize agreements that fall within the categories considered within article 81 (1) of the Treaty of Rome. This is specially true concerning market allocation and price fixing.[78]

51. Many laws, such as those of Germany, Japan, Lithuania, Spain,[79] Sweden, Venezuela, to cite some examples, provide for possibilities of authorization under particular circumstances, and for a limited period of time, such as crisis cartels (referred to as depression cartels in Japan and Spain), and rationalization cartels. The Colombian legislation lists research and development agreements, compliance with standards and measures legislation, and procedures, methods and systems for the use of common facilities.[80] The Hungarian legislation exempts agreements that contribute to a more reasonable organization of production or distribution, the promotion of technical or economic progress, or the improvement of competitiveness or of the protection of the environment; provided that they allow consumers a fair share of the resulting benefit; that they do not exceed the extent necessary to attain economically justified common goals; and that they do not create the possibility of excluding competition in respect of a substantial part of the products concerned.[81] The Indian MRTP Act, refers to defence and security, supply of goods and services essential to the community, and agreements entered into by the Government.[82] Similarly, the new Lithuanian law refers, more broadly, to the steady reduction of consumer prices or the improvement of the quality of goods.[83] In the Russian Federation, such agreements are lawful if they show that the positive effect of their actions, including in the socio-economic sphere, will exceed the negative effects for the market goods under consideration.[84] The law of Slovakia contains provisions which allow automatic exemption from the ban on restrictive agreements. In this country, if restrictive agreements or arrangements comply with the criteria specified in the law, no ban on these agreements can be applied. Notification of the agreements is not required by law. There is a legal presumption that restrictive agreements are prohibited unless the parties to the agreement prove that criteria set out by the law are fulfilled.[85] For examples of agreements that can escape competition law prohibitions, see box 6. For examples of agreements that require individual exemptions to escape the prohibition of competition laws, see box 7.

Box 6

Some agreements can escape competition law prohibitions

These agreements can be explicitly exempted by laws, regulations or "rule of reason" reasoning because they contribute to economic development and market efficiency. Within the EU, most of these agreements are "category exemption".

- Exclusive distribution agreements;
- Exclusive purchasing agreements;
- Patent licensing agreements;
- Motor car distribution and servicing agreements;
- Specialization agreements;
- Research and development cooperation agreements;
- Franchise agreements;
- Technology transfer agreements;
- Certain types of agreements in the insurance sector.

Sources: OECD and European Commission.

Box 7

Agreements requiring individual exemption

Some agreements must be considered in connection with market structure criteria. As such, these agreements require individual exemption by administrative decision after applying "rule of reason" reasoning. They are the following:

- Most types of joint venture agreements which do not fall under the research and development block exemption and which do not amount to mergers;
- Most exclusive licences of industrial property which do not fall within the technology transfer block exemptions;
- Restructuring agreements or "crisis cartels";
- Agreements establishing joint sales or buying agencies;
- Information agreements;
- Agreements establishing the rules of a trade association;
- Agreements or decisions establishing trade fairs.

52. Furthermore, certain sectors of the economy may be exempted from the application of the law, such as banking, and public services including transport and communications, the provision of water, gas, electricity and fuel, because those activities are regulated by other laws or regulatory agencies. In other words, specific legislation creates the exemption. Such sectoral exceptions could be covered by an exemption clause under the scope of application. In recent years, however, with the rising trend of "deregulation", many countries have amended their legislation to include previously exempted sectors in the purview of the law. In the United Kingdom, for example, even State-owned utilities are covered by competition law and regularly subject to investigation. The same occurs in the European Commission which, since 30 years now, includes within its competition rules State-owned enterprises and State monopolies having a commercial character. For a presentation of the interaction between competition law and regulation, see box 5 above.

53. It should be noted that laws adopting the per se prohibition approach - as generally do those of the United States—do not envisage any possibility of exemption or authorization, and therefore do not have a notification system for horizontal restrictive business practices. However, while the United States law does not give the antitrust agencies the power to authorize unlawful conduct, there are numerous statutory and court-made exemptions to United States Antitrust Law.[86]

COMMENTARY TO ARTICLE 4

Acts or behaviour constituting an abuse of a dominant position of market power

I. *Prohibition of acts or behaviour involving an abuse of a dominant position of market power*

A prohibition on acts or behaviour involving an abuse of a dominant position of market power:

(i) Where an enterprise, either by itself or acting together with few other enterprises, is in a position to control a relevant market for a particular good or service, or groups of goods or services.

(ii) Where the acts or behaviour of a dominant enterprise limit access to a relevant market or otherwise unduly restrain competition, having or being likely to have adverse effects on trade or economic development.

54. The elements of this article are based upon section D, paragraph 4, of the Set of Principles and Rules and, as in respect of paragraph I, a prohibition-in-principle approach has been followed when the conditions described in (i) and (ii) exist. Such a situation will require a case-by-case analysis to establish whether the acts or behaviour of an enterprise involve an abuse of a dominant position of market power. For a description of the reasoning on the prohibition of abuse of a dominant position of market power, see box 8.

55. A *dominant position of market power* refers to the degree of actual or potential control of the market by an enterprise or enterprises acting together, or forming an economic entity. The control can be measured on the basis of market shares, total annual turnover, size of assets, number of employees, etc.; also it should focus on the ability of a firm or firms to raise prices above (or depress prices below) the competitive level for a significant period of time. In certain countries, the law specifies the market share which the enterprise or enterprises must hold in order to be considered in a dominant position or a monopolistic situation, and, depending on the country, it is used either as a jurisdictional hurdle for initiating investigations or as critical market share where firms are obliged to notify the Authority.[87] For example, in the United Kingdom a monopoly is presumed to exist if a Company supplies or purchases 25 per cent or more of all the goods or services of a particular type in the United

Kingdom or in a defined part of it - local monopolies can therefore be examined.[88] Also it defines a complex monopoly as a situation where a group of companies that together have 25 per cent of the market all behave in some way that affects competition.[89] In Poland, the law presumes a firm might have "a dominant position, when its market share exceeds 40 per cent".[90] The presumption contained in the 1991 Law of the Czech Republic is of 30 per cent,[91] which is also is the case of Portugal.[92] The legislation of Mongolia considers that dominance exists when a single entity acting alone or a group of economic entities acting together account constantly for over 50 per cent of supply to the market of a certain good or similar goods, products or carried out works and provided services.[93] In the cases of Lithuania,[94] and the Russian Federation,[95] their laws refer to 40 and 65 per cent, respectively. In Germany, the legislation contains several presumptions, namely: at least one enterprise has one third of a certain type of goods or commercial services, and a turnover of at least DM 250 million in the last completed business year; three or fewer enterprises have a combined market share of 50 per cent or over; five or fewer enterprises have a combined market share of two thirds or over. This presumption does not apply to enterprises which recorded turnovers of less than DM 100 million in the last completed business year.[96] In the "Akzo" *Judgement*, the Court of Justice of the European Communities considered that highly important parts (of the market) are by themselves, except for extraordinary circumstances, the sole proof of the existence of a dominant position.[97]

Box 8

Abuse of a dominant position and abuse of market power

The concept of abuse of a dominant position of market power refers to the anti-competitive business practices in which a dominant firm may engage in order to maintain or increase its position in the market. The prohibition of abuse of a dominant position of market power has been incorporated in competition legislation in countries such as Canada, France and Germany, and in the EU.

In this concept there are two elements, namely the question of dominance and the ability to exert market power.

- A firm holds a dominant position when it accounts for a significant share of a relevant market and has a significantly larger market share than its next largest rival. When a firm holds market shares of 40 per cent or more, it is usually a dominant firm which can raise competition concerns when it has the capacity to set prices independently and abuse its market power. However, one has to pay attention to the fact that a dominant position in itself is not anti-competitive as such.
- Market power represents the ability of a firm (or a group of firms acting jointly) to raise and profitably maintain prices above the level that would prevail under competition for a significant period of time. It is also referred to as monopoly power. The exercise or abuse of a dominant position of market power leads to reduced output and loss of economic welfare. In addition to higher than competitive prices, the exercise of market power can be manifested through reduced quality of service or a lack of innovation in relevant markets.

Factors that tend to create market power include a high degree of market concentration, the existence of barriers to entry and a lack of substitutes for a product supplied by firms whose conduct is under examination by competition authorities. Abuse of a dominant position of market power can vary widely from one sector to another. Abuses include the following: charging unreasonable or excessive prices, price discrimination, predatory pricing, refusal to deal or to sell, tied selling or product bundling, pre-emption of facilities, etc.

56. Specific criteria defining market dominance, however, can be difficult to lay down. For example, in the Michelin *Judgement*, the Court of Justice of the European Communities stated that under article 82 of the EEC Treaty a dominant position refers to a situation of economic strength, which gives the enterprise the power to obstruct the maintenance of an effective competition in the market concerned and because it allows the enterprise to conduct itself in a way that is independent from its competitors, clients and, finally, consumers.[98] In addition to market share, the structural advantages possessed by enterprises can be of decisive importance. For example, the Court of Justice of the European Communities in the United Brands Judgement took into account the fact that the undertaking possessed a high degree of vertical integration, that its advertising policy hinged on a specific brand ("Chiquita"), guaranteeing it a steady supply of customers and that it controlled every stage of the distribution process, which together gave the corporation a considerable advantage over its competitors.[99] In consequence, dominance can derive from a combination of a number of factors which, if taken separately, would not necessarily be determinative.

57. A dominant position of market power refers not only to the position of one enterprise but also to the situation where a few enterprises acting together could wield control. This clearly refers to highly concentrated markets

such as in an oligopoly, where a few enterprises control a large share of the market, thus creating and enjoying conditions through which they can dominate or operate on the market very much in the same manner as would a monopolist. The same criterion was adopted by the European Commission and the Court of First Instance of the European Communities in the Vetro Piano in Italia Judgement,[100] which was soon followed by the Nestlé-Perrier merger case.[101] In consequence, the cumulative effect of use of a particular practice, such as tying agreements, may well result in an abuse of a dominant position. In the United Kingdom, "complex monopoly" provisions are not necessarily limited to oligopoly situations.[102]

58. *The abuse or acquisition and abuse of a dominant position* are two closely interrelated concepts, namely the abuse of a dominant position of market power, and the acquisition and abuse of such power. See commentary to article 5.

59. Subsections (*a*) to (*f*) section II, article 3 indicate the behaviour considered *prima facie* abusive when an enterprise is in a dominant position. As such, the inquiry concerns an examination of the conduct of the market-dominating enterprise(s) rather than a challenge of its dominance. However, the maintenance and exercise of such power through abusive behaviour is challenged.

60. It should be noted that in the United States case law has shifted generally towards more favourable evaluation of vertical restraints. The 1985 Antitrust Division Guidelines describing its enforcement policy in respect of vertical restraints (withdrawn since August 1993) indicated that it would not take legal proceedings against the use of vertical practices by firms with less than a 10 per cent market share, and that vertical practices by firms with a larger than 10 per cent market share would not necessarily be subject to challenge but would be subject to further analysis under the rule of reason.[103] For the treatment of vertical restraints by competition law, see box 5 above.

II. *Acts or behaviour considered as abusive*

61. Usually, competition laws provide only some examples of behaviours which are considered abusive and prohibited. These behaviours include a whole range of firm strategies aimed at raising *barriers to entry* to a market. Such barriers to entry are factors which prevent or deter the entry of new firms into an industry even when incumbent firms are earning excess profits. For a description of barriers to entry see box 9.

Box 9

Barriers to entry in competition law and policy

Barriers to entry to a market refer to a number of factors which may prevent or deter the entry of new firms into an industry even when incumbent firms are earning excess profits. There are two broad classes of barriers: structural (or economic) and strategic (or behavioural).

- *Structural barriers to entry* arise from basic industry characteristics such as technology, cost and demand. There is some debate over what factors constitute relevant structural barriers. The widest definition suggests that barriers to entry arise from product differentiation, absolute cost advantages of incumbents, and economies of scale. Product differentiation creates advantages for incumbents because entrants must overcome the accumulated brand loyalty of existing products. Absolute cost advantages imply that the entrant will enter with higher unit costs at every rate of output, perhaps because of inferior technology. Scale economies restrict the number of firms which can operate at minimum costs in a market of given size. A narrower definition of structural barriers to entry has been given by George Stigler and the proponents of the Chicago school of antitrust analysis. They suggest that barriers to entry arise only when an entrant must incur costs which incumbents do not bear. Therefore, this definition excludes scale economies and advertising expenses as barriers (because these are costs which incumbents have had to sustain in order to attain their position in the market). Other economists also emphasize the importance of sunk costs as a barrier to entry. Since such costs must be incurred by entrants, but have already been borne by incumbents, a barrier to entry is created. In addition, sunk costs reduce the ability to exit and thus impose extra risks on potential entrants.
- *Strategic barriers to entry* refer to the behaviour of incumbents. In particular, incumbents may act so as to heighten structural barriers to entry or threaten to retaliate against entrants if they do enter. Such threats must, however, be credible in the sense that incumbents must have an incentive to carry them out if entry does not occur. Strategic entry deterrence often involves some kind of pre-emptive behaviour by incumbents. One example is the pre-emption of facilities by which an incumbent over-invests in capacity in order to threaten a price war if entry actually occurs. Another would be the artificial creation of new brands and products in order to limit the possibility of imitation. This possibility remains subject to debate. Lastly, Governments can also be a source of barriers to entry in an industry through licensing and other regulations.

Barriers to entry into a specific industry can vary widely according to the level of maturity or of development of a market. Estimated barriers to entry for some selected industries in a mature economy include the following:

:

High barriers to entry	Moderately high barriers to entry	Low barriers to entry
Electric generation and distribution	Bakery	Meat packing
Local telephone service	Soft drinks	Flour
Newspapers	Cigarettes	Canned fruits and vegetables
Branded soaps	Periodicals	Woollen and cotton textiles
Aircraft and aprts	Gypsum products	Clothing
Automobile industry	Organic chemicals	Small metal products
Mainframe computers	Toilet preparations	Wooden furniture
Heavy electrical equipment	Petroleum refining	Corrugated containers
Locomotives	Aluminium	Printing
Beer	Heavy industrial machinery	Footwear
Cereals	Large household appliances	Trucking and road transportation
	Railroad transportation	

Sources: UNCTAD; and W. Shepherd, *The Economics of Industrial Organization*. Englewood Cliffs, 1990.

(a) *Predatory behaviour towards competitors, such as using below-cost pricing to eliminate competitors*

62. One of the most common forms of predatory behaviour is generally referred to as predatory pricing. Enterprises engage in such behaviour to drive competing enterprises out of business, with the intention of maintaining or strengthening a dominant position. The greater the diversification of the activities of the enterprise in terms of products and markets and the greater its financial resources, the greater is its ability to engage in predatory behaviour.[104] An example of regulations on predatory pricing appears in the People's Republic of China Law for Countering Unfair Competition. It states that an operator (i.e. enterprises or individuals) may not sell its or his goods at a price that is below the cost for the purpose of excluding its or his competitors.[105] Also, the legislation of Mongolia forbids an enterprise to sell its own goods at a price lower than the cost, with the intention of impeding the entry of other economic entities into the market or driving them from the market.[106] Hungary follows a similar criterion; it prohibits the setting of extremely low prices which are not based on greater efficiency in comparison with that of competitors and are likely to drive out competitors from the relevant market or to hinder their market entry.[107]

63. Predatory behaviour is not limited to pricing. Other means, such as acquisition with a view to the suspension of activities of a competitor, can be considered as predatory behaviour.[108] So can excessive pricing, or the refusal of an enterprise in a dominant position to supply a material essential for the production activities of a customer who is in a position to engage in competitive activities.[109] For a description of various types of price discrimination, see box 10.

Box 10

Types of price discrimination

Price discrimination is an indispensable tool for firms to maximize their profits from whatever market position they hold and raise or defend that position against other firms. However discrimination can also be used by holders of market power to avoid competition by increasing market shares and/or barriers to entry. Price discrimination cases must be carefully examined by competition authorities. There are several types of price discrimination, some of which do stimulate the competitive process. They may be listed in three categories, some practices having a strong relation to international trade and economic relations and some being evidence of economic efficiency:

(a) *Personal discrimination*

- *Haggle-every-time*: Dealing common in bazaars and private deals.
- *Size-up-his-income*: Pricing related to the customer's purchasing power, frequent for doctors, lawyers and members of the "professions".
- *Measure-the-use*: Even if marginal costs are low, charge heavy customers more (large dominant computer, software and copier manufacturers are known to have used this strategy).

(b) *Group discrimination*

- *Kill-the-rival*: Predatory price-cutting aimed at driving out a competitor. Said to have been commonly used by American Tobacco and Standard Oil.

(*Continued on next page.*)

(*Continued from preceding page.*)

- *Dump-the-surplus*: Selling at lower prices in foreign markets where demand is more elastic. Common for some drugs, steel, TV sets and other goods, but complaints about dumping are often unsuccessful.
- *Promote-new-customers*: Common with magazine subscriptions, luring new customers. Often promotes competition where operators do not dominate the market.
- *Favour-the-big-ones*: Volume discounts are steeper than cost differences. Very frequent in many markets, especially in utilities.
- *Divide-them-by-elasticity*: Common in utilities.

(c) *Product discrimination*

- *Pay-for-the-label*: The premium label (or most notorious) gets a higher price, even if the good is the same as a common brand.
- *Clear-the-stock*: "Sales" which are commonly used to clear the inventory but which may also destabilize consumers and competitors if resulting from false advertising.
- *Peak-off-peak-differences*: Prices may differ by more or less than costs do, between peak-hour congested times and slack off-periods. Nearly universal in utilities.

To assess the pro- or anti-competitive nature of discrimination, the competition authority will evaluate the legality of the practice with reference to its economic effects on the relevant markets and to the position of the operators in those markets. In many jurisdictions, vertical restraints are subject to a "rule-of-reason" approach, reflecting the fact that such restraints are not always harmful and may in fact be beneficial in particular market structures or circumstances.

Sources: F. Machlup, *The Political Economy of Monopoly.* Baltimore, 1952; W. Shepherd, *The Economics of Industrial Organization.* Englewood Cliffs, 1990.

(b) *Discriminatory (i.e. unjustifiably differentiated) pricing or terms or conditions in the supply or purchase of goods or services, including by means of the use of pricing policies in transactions between affiliated enterprises which overcharge or undercharge for goods or services purchased or supplied as compared with prices for similar or comparable transactions outside the affiliated enterprise*s

64. Closely related to predatory pricing is the practice of discriminatory pricing. While below-cost pricing vis-à-vis direct competitors may be predatory, discriminatory pricing can also be predatory, as for example in the case of discounts based on quantities, "bonus systems" or "fidelity discounts".[110] In this situation, irrespective of injury to direct competitors, discriminatory pricing can injure competitors of the favoured purchaser.[111] In spite of what has been mentioned, it is also important to point out that in many cases quantity discounts often reflect reduced transaction costs or have the purpose of meeting competition, and should not be discouraged. Injury to competitors of the favoured purchaser should not in and of itself concern competition authorities, because competition laws should protect competition and not competitors.

65. In India, discriminatory discounts based on quantities were found to reduce the opportunities of several wholesalers to compete with large ones, thereby reducing competition among them.[112] In Peru, although the legislation considers discriminatory pricing as an example of abusive behaviour, discounts and bonuses that correspond to generally accepted commercial practices that are given because of special circumstances such as anticipated payment, quantity, volume, etc., and when they are granted in similar conditions to all consumers, do not constitute a case of abuse of dominant position.[113]

66. Other types of price-based discrimination would include "delivered pricing", i.e. selling at uniform price irrespective of location (whatever the transportation costs to the seller), and "base-point selling", where one area has been designated as base point (whereby the seller charges transportation fees from that point irrespective of the actual point of shipment and its costs).

67. The proscription of discrimination also includes *terms and conditions* in the supply or purchase of goods or services. For example, the extension of differentiated credit facilities or ancillary services in the supply of goods and services can also be discriminatory. In the Australian legislation, the prohibition of discrimination is not limited to price-based discriminations, but refers also to credits, provision of services and payment for services provided in respect of the goods.[114] It is also to point out that differential terms and conditions should not be considered unlawful if they are related to cost differences. More generally, preventing firms from offering lower prices to some customers may well result in discouraging firms from cutting prices to anyone.[115]

68. Undercharging for goods or services in transactions between affiliated enterprises (a case of transfer pricing) can be used as a means of predation against competitors who are not able to obtain supplies at comparable prices.[116]

(c) *Fixing the prices at which goods sold can be resold, including those imported and exported*

69. Fixing the resale price of goods, usually by the manufacturer or by the wholesaler, is generally termed

resale price maintenance (RPM). Resale price maintenance is prohibited in many countries, such as for example India, New Zealand,[117] Republic of Korea, the United Kingdom, and the United States. In Sweden, resale price maintenance with an appreciable effect on competition is caught by the prohibition against anti-competitive cooperation as laid down in the Competition Act.[118] In the European Community, fixing the resale price of goods is normally prohibited if competition between member States is affected.

70. While the imposition of a resale price is proscribed, legislation in some States does not ban maximum resale prices (i.e. the United Kingdom) nor recommended prices (i.e. the United Kingdom and the United States). In the United States, the practice of recommended resale price would be illegal if there was a finding of any direct or indirect pressure for compliance. In the United Kingdom, although recommended resale prices are not proscribed, the Director General of Fair Trading may prohibit the misleading use of recommended prices, for example where unduly high prices are recommended in order to draw attention to apparently large price cuts.[119] In Canada, the publication by a product supplier of an advertisement that mentions a resale price for the product is considered to be an attempt to influence the selling price upwards, unless it is made clear that the product may be sold at a lower price.[120]

71. It should be noted that collective resale price maintenance would, when involving competing enterprises (i.e. wholesalers) be covered by article 3, I (a) proposed above as a type of price-fixing arrangement.

72. Refusals to deal are generally the most commonly used form of pressure for non-compliance. For avoiding this situation, for example, the Commission of the European Communities fined a United States corporation and three of its subsidiaries in Europe for having placed an export ban, in respect of its product (pregnancy tests), on their dealers in one of the European countries (United Kingdom) where such products were sold at considerably lower prices than in another European country (Federal Republic of Germany) concerned.[121] Canadian legislation expressly prohibits refusing to supply a product to a person or class of persons because of their low pricing policy.[122]

(d) *Restrictions on the importation of goods which have been legitimately marked abroad with a trademark identical with or similar to the trademark protected as to identical or similar goods in the importing country where the trademarks in question are of the same origin, i.e. belong to the same owner or are used by enterprises between which there is economic, organizational, managerial or legal interdependence, and where the purpose of such restrictions is to maintain artificially high prices*

73. This practice by a dominant firm is prohibited in the Set in section D.4 (*e*). The owner of a trademark may obtain market power through heavy advertising and other marketing practices. If the trademark in question acquires wide acceptance and wide distribution, the trademark owner can be in a position to impose a wide range of RBPs on the distributors of products bearing its trademark. Trademarks can be used to enforce exclusive dealing arrangements, to exclude imports, allocate markets and, at times, to charge excessive prices. Nevertheless, it should be noted that there are various valid reasons why enterprises might limit distribution of their market products, such as maintaining quality and preventing counterfeiting. These measures are designed to protect legitimate intellectual property rights as well as consumers.[123]

74. With regard to restricting the importation of goods, the owner of a trademark may seek to prevent imports of the trademarked product; to prevent anybody other than his exclusive distributor from importing the goods (parallel imports), to prevent similar products bearing his trademark from being imported in competition with his own products, and to use different trademarks for the same product in different countries, thereby preventing imports from one another.

75. In Japan, for example, Old Parr Co. instructed its agents not to supply its whisky to dealers who imported Old Parr whisky from other sources, or who sold the imported products at less than the company's standard price. It devised a special checking mark for packaging supplied by its agents in order to detect any dealer not complying with its requirements. The Japanese Fair Trade Commission investigated the case and found that such action constituted an unfair business practice and accordingly ordered Old Parr to discontinue its practice.[124]

76. Concerning restrictions on the importation of similar products legitimately bearing an identical or similar trademark, an example is the Cinzano case in the Federal Republic of Germany. In this case the Federal Supreme Court decided that when a trademark owner has authorized its subsidiaries or independent licensees in different countries to use his mark and sell the goods to which the mark is affixed, the owner may not in such circumstances prohibit importation of products when placed on the market abroad by its foreign subsidiaries or licensees and irrespective of whether the goods differ in quality from the goods of the domestic trademark owner.[125]

77. As indicated above, a trademark registered in two or more countries can originate from the same source. In the case of trademarked products exported to other countries but not manufactured there, the trademark is frequently licensed to the exclusive distributor. For example, Watts Ltd. of the United Kingdom, a producer of record maintenance goods, and its exclusive distributor and trademark licensee in the Netherlands, the Theal B.V. (later renamed Tepea B.V.), were fined by the Commission of the European Communities for using its trademark to prevent parallel imports into the Netherlands. The Commission found that the exclusive distribution agreements were designed to ensure absolute territorial protection for Theal by excluding all parallel imports of authentic products, and this protection was strengthened by the prohibition on exports imposed by Watts on wholesalers in the United Kingdom. The system, taken as a whole, left Theal completely free in the Netherlands to fix prices for imported products.[126]

78. The fourth type of case concerns the use of two different trademarks for the same product in different coun-

tries in order to achieve market fragmentation. In an action brought by Centrafarm B.V. against American Home Products Corporation (AHP), Centrafarm claimed that, as a parallel importer, it was entitled to sell without authorization in the Netherlands, under the trade name "Seresta", oxazepamum tablets originating from AHP Corporation and offered for sale in the United Kingdom under the name "Serenid D", since the drugs were identical. In this case, the Court ruled that the exercise of such a right can constitute a disguised restriction on trade in the EEC if it is established that a practice of using different marks for the same product, or preventing the use of a trademark name on repackaged goods, was adopted in order to achieve partition of markets and to maintain artificially high prices.[127]

(e) *When not for ensuring the achievement of legitimate business purposes, such as quality, safety, adequate distribution or service*:

(i) Partial or complete refusal to deal on an enterprise's customary commercial terms;

(ii) Making the supply of particular goods or services dependent upon the acceptance of restrictions on the distribution or manufacture of competing or other goods;

(iii) Imposing restrictions concerning where, or to whom, or in what form or quantities, goods supplied or other goods may be resold or exported;

(iv) Making the supply of particular goods or services dependent upon the purchase of other goods or services from the supplier or his designee.

79. While prohibited in principle, possible authorization has been envisaged for behaviour listed in sub-articles (i) to (iv) when it is for ensuring the achievement of legitimate business purposes such as safety, quality, adequate distribution or service provided it is not inconsistent with the objective of the law. Governments set standards in order to ensure adequate health, safety and quality. However, when enterprises claim such standards as justification for engaging in exclusionary practices, particularly when in a dominant position, it gives rise to suspicion as to the purpose of such practices, i.e. whether or not the intent is monopolistic. It is even more suspect when enterprises set standards of their own volition and claim quality considerations as justification for the use of such practices as refusals to deal, tied selling and selective distribution arrangements. Agreements on standards among competitors, if they restricted access to markets, would be subject to article 3. In the "Tetra Pak" and "Hilti" cases the European Commission considered that an enterprise having a dominant position is not entitled to substitute public authorities in carrying out a tied-in sales policy based on claiming security or health reasons. In both cases the Commission's position was confirmed.[128]

80. As a general rule, the inquiry regarding exclusionary behaviour should entail an examination of the position of the relevant enterprises in the market, the structure of the market, and the probable effects of such exclusionary practices on competition as well as on trade or economic development.

(i) *Partial or complete refusal to deal on an enterprise's customary commercial terms*

81. A refusal to deal may seem like an inherent right, since theoretically only the seller or the buyer is affected by his refusal to sell or buy. However, in reality the motives for refusing to sell can be manifold and are often used by dominant firms to enforce other practices such as resale price maintenance or selective distribution arrangements. In addition, refusals to sell can be intimately related to an enterprise's dominant position in the market and are often used as a means of exerting pressure on enterprises to maintain resale prices.

82. Refusals to deal that are intended to enforce potentially anti-competitive restraints, such as resale price maintenance and selective distribution arrangements, raise obvious competitive concerns. Refusals to deal, however, are not in and of themselves anti-competitive, and firms should be free to choose to deal, and also give preferential treatment, to traditional buyers, related enterprises, dealers that make timely payments for the goods they buy, or who will maintain the quality, image, etc. of the manufacturer's product.[129] Also it is the case when the enterprise announces in advance the circumstances under which he will refuse to sell (i.e. merely indicating his wishes concerning a retail price and declining further dealings with all who fail to observe them). In this context the United States Supreme Court had ruled that "the purpose of the Sherman Act is to prohibit monopolies, contracts and combinations which probably would unduly interfere with the free exercise of their rights by those engaged, or who wish to engage, in trade and commerce - in a word to preserve the right of freedom to trade. In the absence of any purpose to create or maintain a monopoly, the act does not restrict the long recognized right of a trader or manufacturer engaged in an entirely private business freely to exercise his own independent discretion as to parties with whom he will deal; and of course, he may announce in advance the circumstances under which he will refuse to sell".[130]

(ii) *Making the supply of particular goods or services dependent upon the acceptance of restrictions on the distribution or manufacture of competing or other goods*

83. Such behaviour is frequently an aspect of "exclusive dealing arrangements", and can be described as a commercial practice whereby an enterprise receives the exclusive rights, frequently within a designated territory, to buy, sell or resell another enterprise's goods or services. As a condition for such exclusive rights, the seller frequently requires the buyer not to deal in, or manufacture, competing goods.

84. Under such arrangements, the distributor relinquishes part of his commercial freedom in exchange for protection from sales of the specific product in question by competitors. The terms of the agreement normally reflect the relative bargaining position of the parties involved.

85. The results of such restrictions are similar to that achieved through vertical integration within an economic entity, the distributive outlet being controlled by the sup-

plier but, in the former instance, without bringing the distributor under common ownership.

(iii) *Imposing restrictions concerning where, or to whom, or in what form or quantities, goods supplied or other goods may be resold or exported*

86. Arrangements between the supplier and his distributor often involve the allocation of a specific territory (territorial allocations) or specific type of customer (customer allocations), i.e. where and with whom the distributor can deal. For example, the distributor might be restricted to sales of the product in question in bulk from the wholesalers or only to selling directly to retail outlets. The purpose of such restrictions is usually to minimize intra-brand competition by blocking parallel trade by third parties. The effects of such restrictions are manifested in prices and conditions of sale, particularly in the absence of strong inter-brand competition in the market. Nevertheless, restrictions on intra-brand competition may be benign or pro-competitive if the market concerned has significant competition between brands.[131]

87. *Territorial allocations* can take the form of designating a certain territory to the distributor by the supplier, the understanding being that the distributor will not sell to customers outside that territory, nor to customers which may, in turn, sell the products in another area of the country.

88. *Customer allocations* are related to the case in which the supplier requires the buyer to sell only to a particular class of customers, for example, only to retailers. Reasons for such a requirement are the desire of the manufacturer to maintain or promote product image or quality, or that the supplier may wish to retain for himself bulk sales to large purchasers, such as sales of vehicles to fleet users or sales to the government. Customer allocations may also be designed to restrict final sales to certain outlets, for example approved retailers meeting certain conditions. Such restrictions can be designed to withhold supplies from discount retailers or independent retailers for the purpose of maintaining resale prices and limiting sales and service outlets.

89. Territorial and customer allocation arrangements serve to enforce exclusive dealing arrangements which enable suppliers, when in a dominant position in respect of the supply of the product in question, to insulate particular markets one from another and thereby engage in differential pricing according to the level that each market can bear. Moreover, selective distribution systems are frequently designed to prevent resale through export outside the designated territory for fear of price competition in areas where prices are set at the highest level.

(iv) *Making the supply of particular goods or services dependent upon the purchase of other goods or services from the supplier or his designee*

90. Such behaviour is generally referred to as tied selling. The "tied" product may be totally unrelated to the product requested or a product in a similar line.[132] Tying arrangements are normally imposed in order to promote the sale of slower moving products and in particular those subject to greater competition from substitute products. By virtue of the dominant position of the supplier in respect of the requested product, he is able to impose as a condition for its sale the acceptance of the other products. This can be achieved, for example, through providing fidelity rebates based upon aggregate purchases of the supplying enterprise's complete range of products.[133]

91. It should be noted that the United States amended its patent law in 1988 to provide that tying one patent to another, or to the purchase of a separate product, will not constitute an illegal extension of the patent right unless "the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned".[134] This legislative action effectively overruled previous statements by United States courts that the holder of a patent should be presumed to have market power. The United States Congress accepted that many patented products are subject to effective competition from substitute products. This practice is prohibited in almost all legislation worldwide, including in Algeria,[135] Hungary,[136] Mongolia,[137] Switzerland[138] and the MERCOSUR.[139]

III. *Authorization*

Acts, practices or transactions not absolutely prohibited by the law may be authorized if they are notified, as described in possible elements for article 6, before being put into effect, if all relevant facts are truthfully disclosed to competent authorities, if affected parties have an opportunity to be heard, and if it is then determined that the proposed conduct, as altered or regulated if necessary, will be consistent with the objectives of the law.

92. The Set of Principles and Rules lays down that whether acts or behaviour are abusive should be examined in terms of their purpose and effects in the actual situation. In doing this, it is clearly the responsibility of enterprises to advance evidence to prove the appropriateness of their behaviour in a given circumstance and the responsibility of the national authorities to accept it or not. Generally, in respect of the practices listed under (*a*) to (*d*) it is unlikely that, when a firm is in a dominant position, their use would be regarded as appropriate given their likely effects on competition and trade or on economic development.

COMMENTARY TO ARTICLE 5

Notification, investigation and prohibition of mergers affecting concentrated markets

I. Mergers, takeovers, joint ventures, or other acquisitions of control, including interlocking directorships, whether of a horizontal, vertical, or a conglomerate nature, should be notified when:

(i) At least one of the enterprises is established within the country; and

(ii) The resultant market share in the country, or any substantial part of it, relating to any product or

service, is likely to create market power, especially in industries where there is a high degree of market concentration, where there are barriers to entry and where there is a lack of substitutes for a product supplied by the incumbent firms.

II. Mergers, takeovers, joint ventures or other acquisitions of control, including interlocking directorships, whether of a horizontal, vertical or conglomerate nature, should be prohibited when:

(i) The proposed transaction substantially increases the ability to exericse market power e.g. to give the ability to a firm or group of firms acting jointly to profitably maintain prices above competitive levels for a significant period of time); and

(ii) The resultant market share in the country, or any substantial part of it, relating to any product or service, will result in a dominant firm or in a significant reduction of competition in a market dominated by very few firms.

I. *Definitions*

93. Concentration of economic power occurs *inter alia* through mergers, takeovers, joint ventures and other acquisitions of control, such as interlocking directorates. A merger is a fusion between two or more enterprises whereby the identity of one or more is lost and the result is a single enterprise. The takeover of one enterprise by another usually involves the purchase of all or a sufficient amount of the shares of another enterprise to enable it to exercise control, and it may take place without the consent of the former. A joint venture involves the formation of a separate enterprise by two or more enterprises.

Box 11

Why institute a merger control?

Some countries with smaller markets believe that merger control is unnecessary because they do not want to impede restructuring of firms trying to obtain a "critical mass" which would enable them to be competitive in world markets. Others believe that having a "national champion" even abusing a monopoly position domestically might allow it to be competitive abroad in third markets. Two objections can be made to these views. First, it is often the case that monopolies enjoy their "monopoly rent" without becoming more competitive abroad, at the expense of domestic consumers and eventually of the development of the economy as a whole. Second, if the local market is open to competition from imports or FDI, the world market might be relevant for the merger-control test, and the single domestic supplier might anyway be authorized to merge. It should also be noted that prohibiting a cartel, while being unable to act against the cartel members if they merge, is unwarranted. Moreover, by not having a merger-control system, a host country deprives itself of the powers to challenge foreign mergers and acquisitions which might have adverse effects on the national territory.

As a rule, merger control aims at preventing the creation, through acquisitions or other structural combinations, of undertakings that will have the incentive and ability to exercise market power. Mergers that are in unusually concentrated markets, or that create firms with unusually high market shares, are thought more likely to affect competition.

Depending on the degree of experience of the competition authorities and varying from one jurisdiction to another, the test of legality of a merger is derived from the laws about dominance or restraints or a separate test is developed and phrased in terms of measures of the actual or potential effect on competition and the competitive process. In earlier versions of the Model Law, merger control was thus included in the possible elements for articles on the abuse of a dominant position.

Most merger control systems apply some form of market share test, either to guide further investigation or as a presumption about legality. Most systems specify procedures for pre-notification to enforcement authorities in advance of larger, more important transactions, and special processes for pre-expedited investigations, in order that problems can be identified and resolved before the restructuring is actually undertaken when the merger is consummated.

Merger control analysis incorporate the following aspects :

- Relevant market definition in geographical or product terms;
- Characterization of the products that actually or potentially compete;
- Firms that might offer competition;
- The relative shares and strategic importance of those firms with respect to the product markets;
- The likelihood of new entry and the existence of effective barriers to new entry.

94. Such acquisitions of control might, in some cases, lead to a concentration of economic power which may be horizontal (for example, the acquisition of a competitor), vertical (for example, between enterprises at different stages of the manufacturing and distribution process), or conglomerate (involving different kinds of activities). In some cases such concentrations can be both horizontal and vertical, and the enterprises involved may originate in one or more countries.[140] Box 11 sums up the main reasons for instituting a merger control.

II. *Notification and criteria of notification*

95. Many States, in controlling mergers and other forms of acquisition of control, have established a system of notification prior to consummation of mergers such as in the United States and the European Union. Some countries have retained a mandatory system of notification after consummation of the merger and a few countries have submitted merger control only to a voluntary notification process. A list of the countries falling in these three categories can be found in a table in annex 2. For most countries, notification is mandatory only when the enterprises concerned have, or are likely to acquire, a certain level of concentration. Tables in annex 3 give detailed examples of thresholds triggering the mandatory (*ex ante* and *ex post*) or voluntary notifications systems for a number of countries as well as indication about the whole merger control system of selected developed and developing countries and countries in transition.

96. The main indicators used for examining such concentration of economic power are market shares, total annual turnover, number of employees and total assets. The other factors, including the general market structure, the existing degree of market concentration, barriers to entry and the competitive position of other enterprises in the relevant market, as well as the advantages currently enjoyed and to be gained by the acquisition, are also taken into account in assessing the effects of an acquisition. It is important to note that authorization schemes must not be interpreted as to discourage firms from undertaking pro-competitive activities. In the European Union the obligation to notify a concentration is based on the worldwide, community-wide or national aggregate turnover of the concerned undertaking.[140]

97. For example, in 1989 the European Union adopted a comprehensive system of merger control through Regulation No. 4064/89. This regulation was extensively modified in 1997. The Merger Regulation is based on the principle of the "one-stop shop": once a transaction has triggered the application of the European Competition Authority powers (e.g. the European Commission through its Directorate General for Competition), the national competition authorities of the member States are precluded from applying their own competition laws to the transaction (except in very limited circumstances). The application of this principle is aimed at strengthening the firms' certainty with regard to international transactions (which otherwise could fall under the review of multiple national merger control authorities. This principle of the "one-stop shop" has been strengthened by the modification, in an attempt to reduce the need for the business community to make multiple applications for clearance with national merger regulators.

98. Until 1 March 1998, the regulation required the notification of all mergers or acquisitions between firms with a combined turnover of 5 billion euros, each having a turnover of at least 250 million euros in the EC, unless each of the parties achieves more than two thirds of its aggregate Community-wide turnover in one and the same member State. Since 1 March 1998, the Merger Regulation has also applied to smaller concentrations which have a significant impact in at least three member States. The Regulation catches the concentrations where the aggregate Community-wide turnover of the parties exceeds 2.5 billion euros, and where the Community-wide turnover of each of at least two parties exceeds 100 million euros and where in each of at least three member States, the aggregate turnover of all the parties exceeds 100 million euros and in each of the three just-mentioned member States the turnover of each of at least two parties exceeds 25 million euros, unless each of the parties achieves more than two thirds of its aggregate Community-wide turnover in one and the same member State.

99. Such transactions have to be notified, and halted for up to four months if investigated. It is rare to see corporations failing to comply with the obligation to notify: for instance in the EU, over 10 years of practice of enforcement, the Commission first imposed a financial penalty on an enterprise for failure to notify a concentration in time only in 1998.[142] Mergers which do not reach the threshold indicated may still be subject to control by the national authorities of the member States.[143] Also, there are exceptions which may, in any case, bring a merger back within a member State's ambit.[144]

III. *Types of concentrations*

100. Horizontal acquisitions are clearly the type of activity which contributes most directly to concentration of economic power and which is likely to lead to a dominant position of market power, thereby reducing or eliminating competition.[145] This is why restrictive business practices legislation in many developed and developing countries applies strict control to the merging or integration of competitors. In fact, one of the primary purposes of anti-monopoly legislation has been to control the growth of monopoly power, which is often created as a direct result of integration of competitors into a single unit. Horizontal acquisitions of control are not limited to mergers but may also be effected through takeovers, joint ventures or interlocking directorates. Horizontal acquisition of control, even between small enterprises, while not necessarily adversely affecting competition in the market, may nonetheless create conditions which can trigger further concentration of economic power and oligopoly.

101. Where the acquisition of control is through the establishment of a joint venture, the first consideration should be to establish whether the agreement is of the type proscribed by the possible elements for article 3, and involving market allocation arrangements or likely to lead to allocation of sales and production.

102. Vertical acquisitions of control involve enterprises at different stages in the production and distribu-

tion process, and may entail a number of adverse effects. For example, a supplying enterprise which merges or acquires a customer enterprise can extend its control over the market by foreclosing an actual or potential outlet for the products of its competitors. By acquiring a supplier, a customer can similarly limit access to supplies of its competitors.

103. Conglomerate acquisitions which neither constitute the bringing together of competitors nor have a vertical connection (i.e. forms of diversification into totally unrelated fields) are more difficult to deal with, since it could appear ostensibly that the structure of competition in relevant markets would not change. The most important element to be considered in this context is the additional financial strength which the arrangement will give to the parties concerned. A considerable increase in the financial strength of the combined enterprise could provide for a wider scope of action and leverage vis-à-vis competitors or potential competitors of both the acquired and the acquiring enterprise and especially if one or both are in a dominant position of market power.[146]

104. Cross-frontier acquisitions of control. Mergers, takeovers or other acquisitions of control involving transnational corporations should be subject to some kind of scrutiny in all countries where the corporation operates, since such acquisitions of control, irrespective of whether they take place solely within a country or abroad, might have direct or indirect effects on the operations of other units of the economic entity.

105. For example, in Australia, amending legislation to strengthen and improve the effectiveness of the Trade Practices Act, 1986, was introduced to cover overseas mergers of foreign corporations with subsidiaries in Australia. Subsection 50 (A) (1) provides that the Tribunal may, on the application of the Minister, the Commission or any other person, make declaration that the person who, as a consequence of an acquisition outside Australia, obtains a controlling interest (defined by subsection 50 (A) (8)) in one or more corporations, would or would be likely to dominate a substantial market for goods or services in Australia, and that the acquisition will not result in a public benefit. The term "substantial market for goods and services" is used to make it clear that the provision applies only to markets of a similar magnitude to those to which section 50 applies.

106. Interesting examples of action against international mergers taking place outside the national borders, but having effects in the national territory, are provided by the Federal Cartel Office of Germany, in the Bayer/Firestone, and Phillip Morris/Rothmans mergers cases.[147] It is to be noted that there are several cases of restrictive business practices which have had effects in various countries and, hence, various national authorities have dealt with them. For instance, in 1998, 14 cases involving several EU national authorities were notified to the European Commission. Particularly prominent are the Gillette/Wilkinson and the Boeing/McDonnell Douglas Mergers.[148]

107. An interlocking directorship is a situation where a person is a member of the board of directors of two or more enterprises or the representatives of two or more enterprises meet on the board of directors of one firm. This would include interlocking directorship among parent companies, a parent of one enterprise and a subsidiary of another parent or between subsidiaries of different parents. Generally, financial tie-ups and common ownership of stocks give rise to such situations.

108. Interlocking directorships can affect competition in a number of ways. They can lead to administrative control whereby decisions regarding investment and production can in effect lead to the formation of common strategies among enterprises on prices, market allocations and other concerted activities of the type discussed in article 3. Interlocking directorates at the vertical level can result in vertical integration of activities, such as, for example, between suppliers and customers, discourage expansion into competitive areas, and lead to reciprocal arrangements among them. Links between directorates of financial enterprises and non-financial enterprises can result in discriminatory conditions of financing for competitors and act as catalysts for vertical-horizontal or conglomerate acquisitions of control.[149]

109. It is important to note that interlocking directorship can be used as a means of circumventing any well-constructed and rigorously applied legislation in the area of restrictive business practices, if it is not effectively controlled.[150] Therefore, States may wish to consider mandatory notification of interlocking directorates and prior approval thereof, irrespective of whether the interlocking is among competitors, vertical or conglomerate.

COMMENTARY TO ARTICLE 6

Some possible aspects of consumer protection

110. In a number of countries, consumer protection legislation is separate from restrictive business practices legislation.

111. In some countries, however, such as Australia, Poland and France, the competition law contains a chapter devoted to consumer protection. Undoubtedly, competition issues are closely related to protection of consumers' economic interests. This is also the case, for example, in Canada, India, Lithuania and Venezuela, where their competition laws contain regulations on "unfair trade practices". The text of UNCTAD Model Law or Laws (1984 version), in TD/B/RBP/15/Rev.1, listed some elements that could be considered by States for inclusion in their restrictive business practices legislation. However, the present trend in countries adopting such legislation seems to be the adoption of two separate laws, one on RBPs or competition, and the others on consumer protection. Nevertheless, because of the links between the two bodies of law, the administration of these laws is often the responsibility of the same authority. This is the case, for example, in Algeria, Australia, Canada, Colombia, Costa Rica, Finland, France, Hungary, New Zealand, Norway, Panama, Peru, Poland, the Russian Federation, Sri Lanka, the United Kingdom, and the United States.

112. It is also important to take into account the United Nations General Assembly resolution on Consumer Protection[151] in which comprehensive guidelines on this issue were adopted in 1985. This set includes, *inter alia*, measures devoted to the promotion and protection of consumers' economic interests, along with standards for the safety and quality of consumer goods and services; distribution facilities for essential consumer goods and services; measures enabling consumers to obtain redress; education and information programmes, etc. In this context the United Nations Guidelines on Consumer Protection refers explicitly to the Set of Principles and Rules for the Control of Restrictive Business Practices and recommends Governments to develop, strengthen or maintain measures relating to the control of restrictive and other abusive business practices which may be harmful to consumers, including means for the enforcement of such measures.[152]

COMMENTARY TO ARTICLE 7

Notification

I. *Notification by enterprises*

1. When practices fall within the scope of articles 3 and 4 and are not prohibited outright, and hence the possibility exists for their authorization, enterprises could be required to notify the practices to the Administering Authority, providing full details as requested.

2. Notification could be made to the Administering Authority by all the parties concerned, or by one or more of the parties acting on behalf of the others, or by any persons properly authorized to act on their behalf.

3. It could be possible for a single agreement to be notified where an enterprise or person is party to restrictive agreements on the same terms with a number of different parties, provided that particulars are also given of all parties, or intended parties, to such agreements.

4. Notification could be made to the Administering Authority where any agreement, arrangement or situation notified under the provisions of the law has been subject to change either in respect of its terms or in respect of the parties, or has been terminated (otherwise than by affluxion of time), or has been abandoned, or if there has been a substantial change in the situation (within ... days/months of the event) (immediately).

5. Enterprises could be allowed to seek authorization for agreements or arrangements falling within the scope of articles 3 and 4, and existing on the date of the coming into force of the law, with the proviso that they be notified within (... days/months) of such date.

6. The coming into force of agreements notified could depend upon the granting of authorization, or upon expiry of the time period set for such authorization, or provisionally upon notification.

7. All agreements or arrangements not notified could be made subject to the full sanctions of the law, rather than mere revision, if later discovered and deemed illegal.

113. The approach adopted in the Model Law is a prohibition in principle of restrictive agreements. In consequence, when practices fall within the scope of possible elements for articles 3 and 4, and are not prohibited outright, the possibility for their authorization exists. Notification also applies for Merger Control if this is provided for as under possible elements for article 5 or under a separate article of the Law. It should be noted, however, that excessive provision for notification and registration in the law may be extremely burdensome for enterprises and for the responsible authorities. Therefore many laws requesting notification, such as in Spain, Sweden, or the European Community regulations, exempt or give "block exemptions" for specific practices, or for transactions below given thresholds. This will also be the case of Poland, under the proposed amendments to their law, presently under consideration by Parliament. In Sweden, block exemptions are similar to those in force within the European Community. In addition, in Sweden a block exemption has been issued for certain forms of cooperation in chains in the retail trade.[153]

114. In seeking authorizations, enterprises would be required to notify the full details of intended agreements or arrangements to the Administering Authority. The particulars to be notified depend on the circumstances and are unlikely to be the same in every instance (see box 12). The information required could include*, inter alia*:

(*a*) The name(s) and registered address(es) of the party, or parties concerned;

(*b*) The names and the addresses of the directors and of the owner, or part owners;

(*c*) The names and addresses of the (major) shareholders, with details of their holdings;

(*d*) The names of any parent and interconnected enterprises;

(*e*) A description of the products, or services, concerned;

(*f*) The places of business of the enterprise(s), the nature of the business at each place, and the territory or territories covered by the activities of the enterprise(s);

(*g*) The date of commencement of any agreement;

(*h*) Its duration or, if it is terminable by notice, the period of notice required;

(*i*) The complete terms of the agreement, whether in writing or oral, in which oral terms would be reduced to writing.

115. In seeking authorization, it is for the enterprises in question to demonstrate that the intended agreement will not have the effects proscribed by the law, or that it is not in contradiction with the objectives of the law. With regard to authorization in respect of behaviour falling under possible elements for article 5, information supplied in notifications of mergers should include, for example, the share of the market, total assets, total annual turnover and number of employees, including those of horizontally and vertically integrated or inter-

Box 12

Notification: Information about the parties and the agreement

- Identity of firms submitting the notification;
- Information on the parties to the agreement and any corporate groups to which they belong;
- Details of the agreements or arrangements notified, including any provisions which may restrict the parties in their freedom to take independent commercial decisions;
- A non-confidential summary which the Competition Authority can disclose on the *Official Gazette or on the Internet,* inviting comments from third parties;
- Reasons why the Competition Authority should grant negative clearance or exemption;
- Supporting documentation (e.g. annual reports and accounts for all parties for the last three years);
- Copies of in-house or external long-term market studies or planning documents.

Information on relevant market to be supplied with notification

- Identification of the relevant product market defined by the Competition Authority as comprising all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products' characteristics, their prices or their intended use;
- Identification of the relevant geographical market defined by the Competition Authority as comprising the area in which the undertakings concerned are involved in the supply of products or services, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighbouring areas because, in particular, conditions of competition are appreciably different in those areas;
- Position of the parties, competitors and customers in the relevant product market(s);
- Market entry and potential competition in the product and geographical markets.

Information on relevant market for structural joint ventures

- Identification of relevant product and geographical markets as above, plus additional questions on the products or services directly or indirectly affected by the agreement;
- Notified and products or services which are close economic substitutes and more detailed questions on the geographical market;
- Information on group members operating in the same markets;
- Questions on parties, competitors and customers as above;
- Questions on market entry and potential competition as above, plus additional details, e.g. on minimum viable scale for entry into the relevant product market(s).

Sources: UNCTAD and European Commission.

II. *Action by the Administering Authority*

1. Decision by the Administering Authority (within ... days/months of the receipt of full notification of all details), whether authorization is to be denied, granted or granted subject where appropriate to the fulfilment of conditions and obligations.

2. Periodical review procedure for authorizations granted every ... months/years, with the possibility of extension, suspension, or the subjecting of an extension to the fulfilment of conditions and obligations.

116. The coming into force of agreements notified would depend on a number of factors. In the case of mergers and other acquisitions of control, the prior authorization of the Administering Authority in a given time-frame before the coming into force of agreements should be envisaged. The same procedure could also be applied with respect to agreements and arrangements notified under articles 3 and 4 (*e*) to (*f*), but it could cause certain delays in business decisions. With regard to the latter, the agreements could perhaps come into force provisionally unless decided otherwise by the Administering Authority, within a given time-frame.

117. Section II, paragraph 2, of this article provides for a review and suspension procedure for authorization granted. If authorizations are granted in particular economic circumstances, it is usually on the understanding that these circumstances are likely to continue. A review procedure is necessary, however, not only in cases where circumstances may have changed, but also where the possible adverse effects of the exemption were not predicted or foreseen at the time at which the authorization was given.

3. The possibility of withdrawing an authorization could be provided, for instance, if it comes to the attention of the Administering Authority that:

(*a*) The circumstances justifying the granting of the authorization have ceased to exist;

(*b*) The enterprises have failed to meet the conditions and obligations stipulated for the granting of the authorization;

(*c*) Information provided in seeking the authorization was false or misleading.

118. Section II, paragraph 3, provides for withdrawing an authorization when there has been a change of facts, or when a break of obligations, or an abuse of exemption has been committed. This also includes instances where the original decision was based on incorrect or deceitful information.

COMMENTARY TO ARTICLE 8

The Administering Authority and its organization

1. The establishment of the Administering Authority and its title.

119. Section E.1 of the Set of Principles and Rules requires States to adopt, improve and effectively enforce appropriate legislation and to implement judicial and administrative procedures in this area. Recent enactments of legislation and legislative amendments in different countries show trends towards the creation of new bodies for the control of restrictive business practices, or changes in the existing authorities in order to confer additional powers on them and make them more efficient in their functioning.

120. In some cases, there has been a merging of different bodies into one empowered with all functions in the area of restrictive business practices, consumer protection or corporate law. This is the case, for example, in Pakistan where the Government decided to establish a corporate authority to administer the Monopolies Ordinance together with other business laws.[154] This applies also to Colombia[155] and Peru.[156]

2. Composition of the Authority, including its chairmanship and number of members, and the manner in which they are appointed, including the authority responsible for their appointment.

121. It is not possible to indicate which should be the appropriate authority. It is also not possible to lay down how the Authority should be integrated into the administrative or judicial machinery of a given country. This is a matter for each country to decide. The present Model Law has been formulated on the assumption that probably the most efficient type of administrative authority is one which is a quasi-autonomous or independent body of the Government, with strong judicial and administrative powers for conducting investigations, applying sanctions, etc., while at the same time providing for the possibility of recourse to a higher judicial body. Note that the trend in most of the competition authorities created in the recent past (usually in developing countries and countries in transition) is to award them as much administrative independence as possible. This feature is very important because it protects the Authority from political influence.

122. The number of members of the Authority differs from country to country. In some legislation the number is not fixed and may vary within a minimum and maximum number, such as in Switzerland. Other countries state in their legislation the exact number of members, for example Algeria, Argentina, Brazil, Bulgaria, Côte d'Ivoire, Costa Rica, Hungary, Malta, Mexico, Panama, Peru, Portugal, the Republic of Korea and the Russian Federation. Other countries, such as Australia, have left to the appropriate authority the choice of the number of members. In many countries, the law leaves to the highest authority the appointment of the Chairman and the members of the Commission. In other countries, a high governmental official is designated to occupy the post by the law. In Argentina, the President of the Commission is an Under-Secretary of Commerce, and the members are appointed by the Minister of Economics.[157] In some countries, such as India, Malta and Pakistan, it is obligatory to publish the appointments in the official gazettes for public knowledge. Certain legislation establishes the internal structure and the functioning of the Authority and establish rules for its operation, while others leave such details to the Authority itself.

123. A tendency observed in some countries is the partial or total change regarding the origin of the members of the national authorities in relation to restrictive business practices. This is the case in Chile where under previous legislation members of the Resolutive Commission were basically officers from the public administration, while at present such posts include representatives from the University.[158]

3. Qualifications of persons appointed.

124. Several laws establish the qualifications that any person should have in order to become a member of the Authority. For example, in Peru members of the Multi-sectorial Free Competition Commission must have a professional degree and at least 10 years of experience in its respective field of knowledge.[159] In Brazil, members of the Administrative Economic Protection Council are chosen among citizens reputed for their legal and economic knowledge and unblemished reputation.[160]

125. In a number of countries the legislation states that the persons in question should not have interests which would conflict with the functions to be performed. In India, for example, a person should not have any financial or other interest likely to affect prejudicially his functions. In Germany, members must not be owners, chairmen or members of the board of management or the supervisory board of any enterprise, cartel, trade industry association, or professional association. In Hungary, the President, vice-presidents of the Office of Economic Competition and the senior officials and members of the Competition Council may not pursue other activities for profit other than activities dedicated to scientific, educational, artistic, authorial and inventive pursuits, as well as activities arising out of legal relationships aimed at

linguistic and editorial revision, and may not serve as senior officials of a business organization, or members of a supervisory board or board of directors.[161] Similar provisions are included in the Italian[162] and Mexican legislation.[163]

4. The tenure of office of the chairman and members of the Authority, for a stated period, with or without the possibility of reappointment, and the manner of filling vacancies.

126. The tenure in office of the members of the Administering Authority varies from country to country. At present, members are appointed in Australia and Italy for 7 years, in Hungary for 6 years, in Algeria and Panama for 5 years, in Argentina for 4 years, in Canada and Mexico for 10 years, and in Bulgaria, India, the United Kingdom and Pakistan for 5 years. In Lithuania, the law refers to a tenure of 3 years. In Brazil it is for 2 years, and in other countries, such as Peru and Switzerland, it is for an indefinite period. In many countries, such as Thailand, the Republic of Korea, Argentina, India and Australia, members have the possibility of being reappointed, but in the case of Brazil this is possible only once.

5. Removal of members of the Authority.

127. Legislation in several countries provides an appropriate authority with powers to remove from office a member of the Administering Authority that has engaged in certain actions or has become unfit for the post. For example, becoming physically incapable is a reason for removal in Hungary, Thailand, the Republic of Korea and India; becoming bankrupt, in Thailand, India and Australia; in Mexico[164] they can only be removed if they are charged and sentenced for severe misdemeanour under criminal or labour legislation; abusing one's position and acquiring other interests, in India; failing in the obligations that one acquires as a member of the Administering Authority, in Argentina and Australia; being absent from duty, in Australia. Another cause for removal is being sentenced to disciplinary punishment or dismissal, for example in Hungary[165] or imprisonment in Thailand.[166] In the People's Republic of China where a staff member of the State organ monitoring and investigating practices of unfair competition acts irregularly out of personal considerations and intentionally screens an operator from prosecution, fully knowing that he had contravened the provisions of China's law, constituting a crime, the said staff member shall be prosecuted for his criminal liability according to law.[167] The procedure for removal varies from country to country.

6. Possible immunity of members against prosecution or any claim relating to the performance of their duties or discharge of their functions.

128. In order to protect the members and officers of the Administering Authority from prosecution and claims, full immunity may be given to them when carrying out their functions. In Pakistan, for example, the Authority or any of its officials or servants have immunity against any suit, prosecution or other legal proceeding for anything done in good faith or intended to be done under the Monopolies Law.

7. The appointment of necessary staff.

129. There are variations for the appointment of staff of the Administering Authority. In some countries, as in Pakistan and Sri Lanka, the Administering Authority appoints its own staff. In others, the Government has this power.

COMMENTARY TO ARTICLE 9

Functions and powers of the Administering Authority

I. *The functions and powers of the Administering Authority could include (illustrative)*

130. Most legislation dealing with restrictive business practices establishes a list of the functions and powers that the Authority possesses for carrying out its tasks, and which provide a general framework for its operations. An illustrative list of functions of the Authority is contained in article 8. It is important to mention that all these functions are related to the activities that the Competition Authority or competition enforcement agency might develop, as well as the means usually at its disposal for carrying out its tasks. A common feature to be highlighted is that the Authority's functions must be based on the principle of due process of law as well as transparency.

(a) *Making inquiries and investigations, including as a result of receipt of complaints*

131. The Authority may act on its own initiative, or following certain indications that the restrictive practice exists - for example, as a result of a complaint made by any person or enterprise. Box 13 gives examples of information to be supplied to the Competition Authority in a complaint. Information gathered by other government departments, such as the internal revenue, foreign trade, customs or foreign exchange control authorities, if applicable, may also provide a necessary source of information. The Principles and Rules specify that States should institute or improve procedures for obtaining information from enterprises necessary for their effective control of restrictive business practices. The Authority should also be empowered to order persons or enterprises to provide information and to call for and receive testimony. In the event that this information is not supplied, the obtaining of a search warrant or a court order may be envisaged, where applicable, in order to require that information be furnished and/or to permit entry into premises where information is believed to be located. Box 13 provides examples of documents which the Competition Authority may inspect. Finally, it is indispensable to mention that in the process of investigation, the general principles and rules of due process of law, which in many countries is a constitutional mandate, must be duly observed.[168]

132. In many countries, including Argentina, Australia, Germany, Hungary, Norway, Pakistan, Peru and the Rus-

sian Federation, as well as in the European Community, the Administering Authority has the power to order enterprises to supply information and to authorize a staff member to enter premises in search of relevant information. However, entry into premises may be subject to certain conditions. For example, in Argentina a court order is required for entry into private dwellings, while in Germany searches, while normally requiring a court order, can be conducted without one if there is a "danger in delay".

Box 13

Investigation procedures

(i) *Information to be supplied to the Competition Authority in a complaint*

- Details about the complainant and about the firm(s) complained of;
- Details about the substance of the complaint;
- Evidence as to why the complainant has a legitimate interest;
- Details of whether a similar complaint has been made to any other authorities (e.g. sectoral ministries or agencies) or is the subject of proceedings in a court;
- Details of any products or services involved and a description of the relevant market;
- A statement of what remedies are sought form the Competition Authority (including interim remedies).

(ii) *Examples of documents which the Competition Authority may inspect*

- Financial records;
- Sales records;
- Production records;
- Travel records;
- Diaries;
- Minutes or notes of meetings held either internally, or with third parties;
- Records and copies of correspondence (internal and external), personal memoranda, including telephone numbers and fax numbers used during particular periods, records of electronic mail;
- Photographic materials.

Sources: European Commission and OECD.

(b) *Taking the necessary decisions, including the imposition of sanctions, or recommending same to a responsible minister*

133. The Administering Authority would need, as a result of inquiries and investigations undertaken, to take certain decisions as, for example, to initiate proceedings or call for the discontinuation of certain practices, or to deny or grant authorization of matters notified, or to impose sanctions, as the case may be.

(c) *Undertaking studies, publishing reports and providing information to the public*

134. The Authority could undertake studies and obtain expert assistance for its own studies, or commission studies from outside. In Brazil, for example, the law establishes that the Economic Law Office of the Ministry of Justice shall carry out studies and research with a view to improving antitrust policies.[169] Some legislation explicitly requests the authorities to engage in particular studies. For example, in Thailand the Office on Price Fixing and Anti-Monopoly has the power and the duty to study, analyse and conduct research concerning goods, prices and business operations;[170] in Argentina, the Commission can prepare studies related to markets, including research into how their conduct affects the interests of consumers, and in Portugal the Council for Competition may request the Directorate-General for Competition and Prices to undertake appropriate studies in order to formulate opinions to be submitted to the Minister responsible for trade.[171] The Authority could inform the public of its activities regularly. Periodic reports are useful for this purpose and most of the countries that have restrictive business practices legislation issue at least an annual report.

(d) *Issuing forms and maintaining a register, or registers, for notifications*

135. The laws of most countries having notification procedures include provision for some system of registration which must be characterized by transparency. This is the case, for example, of Spain, with the Registry for Safeguarding Competition,[172] and France at the level of the Directorate-General for Competition, Consumers

Affairs and Frauds Repression (DGCCRF).[173] Some countries maintain a public register in which certain, but not all, of the information provided through notification is recorded. The usefulness of a public register lies in the belief that publicity can operate to some extent as a deterrent to enterprises engaging in restrictive business practices, as well as provide an opportunity for persons affected by such practices to be informed of them. Such persons can also make specific complaints and advise of any inaccuracies in the information notified. However, not all the information notified can be registered, and one of the reasons for this is that certain information will relate to so-called "business secrets", and disclosure could affect the operations of the enterprise in question. Sensitive business information in the hands of the competition authorities cannot be overstated because a breach of such confidentiality will strongly discourage the business community from quick compliance with reasonable requests for information.

(e) *Making and issuing regulations*

136. The Authority should also have powers to issue implementing regulations to assist it in accomplishing its tasks.

(f) *Assisting in the preparation, amending or review of legislation on restrictive business practices, or on related areas of regulation and competition policy*

137. Owing to the high level of specialization and the unique experience of the Administering Authority in the field of competition, a growing number of new laws or amendments give the Authority the additional responsibility for advising on the draft bills which may affect competition, as well as for studying and submitting to the Government the appropriate proposals for the amendment of legislation on competition. This is the case, for example, in Bulgaria at the level of the Commission for the Protection of Competition,[174] Portugal with its Council for Competition, which can formulate opinions, give advice and provide guidance in competition policy matters,[175] Spain, at the level of the Court for the Protection of Competition[176] and Mexico at the level of the Federal Commission for Competition.[177]

(g) *Promoting exchange of information with other States*

138. The Principles and Rules require States to establish appropriate mechanisms at the regional and subregional levels to promote exchange of information on restrictive business practices. It would be convenient to provide the Authority with the power to promote such exchange by clearly establishing it as one of its functions. For example, under the legislation of Belgium it is possible to communicate the necessary documents and information to the appropriate foreign authorities for competition matters, under agreements regarding reciprocity in relation to mutual assistance concerning competitive practices.[178] Information exchange and consultations are also provided for in bilateral agreements between the United States and Germany, Australia, and the Commission of the European Communities, as well as between France and Germany. In addition, it is provided for in Section F (4) of the Set.

II. *Confidentiality*

1. According to information obtained from enterprises containing legitimate business secrets reasonable safeguards to protect its confidentiality.

2. Protecting the identity of persons who provide information to competition authorities and who need confidentiality to protect themselves against economic retaliation.

3. Protecting the deliberations of government in regard to current or still uncompleted matters.

139. In accordance with paragraph 5 of section E of the Set of Principles and Rules, legitimate business secrets should be accorded the normally applicable safeguards, in particular to protect their confidentiality. The confidential information submitted to the Administering Authority or obtained by it can also be protected, in general, by the national legislation regarding secrecy. Nevertheless, in some countries such as Mexico,[179] Norway,[180] Portugal,[181] and Switzerland[182] their legislation contains special provisions on the secrecy of the evidence obtained during the proceedings.

COMMENTARY TO ARTICLE 10

Sanctions and relief

I. *The imposition of sanctions, as appropriate, for*:

(i) Violations of the law;

(ii) Failure to comply with decisions or orders of the Administering Authority, or of the appropriate judicial authority;

(iii) Failure to supply information or documents required within the time limits specified;

(iv) Furnishing any information, or making any statement, which the enterprise knows, or has any reason to believe, to be false or misleading in any material sense;

140. Subparagraph II of article 10 lists a number of possible sanctions for breaches enumerated in subparagraph I.

II. *Sanctions could include*:

(i) Fines (in proportion to the secrecy, gravity and clear-cut illegality of offences or in relation to the illicit gain achieved by the challenged activity);

141. The power to impose fines on enterprises and individuals may be vested either in the Administering Authority, or in the judicial authority, or it may be divided between the two. In the latter case, for example, the Authority's power to impose fines might be limited to such conduct as refusals to supply information, the giving

of false information and failure to modify agreements. In countries such as Algeria, Brazil, Côte d'Ivoire, Germany, Hungary, Japan, Lithuania, Mexico, Norway, Pakistan, Panama, Peru, the Russian Federation and Switzerland, and in the EC, the administering bodies have powers to impose fines. In Australia and the United States of America, the power to impose fines is vested in the courts. The maximum amount of fines varies of course from country to country.

142. Fines may also vary according to the type of infringement (in India and Portugal), or according to whether the infringement was committed *wilfully* or negligently (Germany and the EC), or they may be expressed in terms of a specific figure and/or in terms of the minimum or reference salary (Brazil, Mexico, Peru, Russian Federation), and/or they may be calculated in relation to the profits made as a result of the infringement (China, Germany, Hungary and Lithuania). Moreover, in certain countries, such as Germany, an offence can be punished by a fine of up to three times the additional receipt obtained as a result of the infringement. Treble damages are also important in cases of price-fixing in the United States. In Peru, in case of recurrence the fine could be doubled.[183]

143. It would seem logical that the fines be indexed to inflation, and that account be taken of both the gravity of the offences and the ability to pay by enterprises, so that the smaller enterprises would not be penalized in the same manner as large ones, for which fines having a low ceiling would constitute small disincentive for engaging in restrictive practices.

144. Recent enforcement attitudes towards arrangements have been to seek deterrence by means of very substantial fines for companies. In the European Community, fines imposed by the Commission can reach up to 10 per cent of the annual turnover (of all products) of the offending enterprises. Hence, in 1991, Tetra Pak was found to infringe article 86 of the Treaty of Rome (abuse of a dominant position) and, consequently, a fine of 75 million ECUs was imposed. Such a firm attitude towards infringement of EC competition law was confirmed recently in the case of three cartels (on steel bars, carton and cement), which were condemned in 1994 to pay fines of ECU 104, 132.15 and 248 million respectively.[184] In the United States, legislation was enacted in 1990 raising the maximum corporate fine for an antitrust violation from US$ 1 million to US$ 10 million.[185] In Japan, legislation has been introduced to allow fines of up to 6 per cent of the total commerce affected over a three-year period. Under this legislation, a fine of US$ 80 million was imposed by the Japanese Fair Trade Commission on a cement cartel in 1991.[186]

(ii) Imprisonment (in cases of major violations involving flagrant and intentional breach of the law, or of an enforcement decree, by a natural person);

145. The power to impose imprisonment would normally be vested in the judicial authority. In certain countries, such as Japan and Norway, the power to impose terms of imprisonment is reserved for the judicial authorities on the application of the Administering Authority. Terms of imprisonment may be up to one, two, three or more years, depending upon the nature of the offence.

146. In countries such as Argentina and Canada, where the judicial authorities are responsible for decisions under the restrictive business practices legislation, the courts have the power to impose prison sentences of up to six years (Argentina) and up to two years (Canada). In the United States, criminal antitrust offences are limited to clearly defined "per se" unlawful conduct and defendant's conduct which is manifestly anti-competitive: price-fixing, bid-rigging, and market allocation. Only the Sherman Act provides criminal penalties (violations for Sections 1 and 2) and infractions may be prosecuted as a felony punishable by a corporate fine and three years' imprisonment for individuals. United States Antitrust Division prosecution of Sherman Act criminal penalties are governed by general federal criminal statutes and the Federal Rules of Criminal Procedure.[187]

(iii) Interim orders or injunctions;

147. In Hungary, the Competition Board may, by an interim measure, prohibit in its decision the continuation of the illegal conduct or order the elimination of the current state of affairs, if prompt action is required for the protection of the legal or economic interests of the interested persons or because the formation, development or continuation of economic competition is threatened. The Competition Board may also require a bond as a condition.[188]

(iv) Permanent or long-term orders to cease and desist or to remedy a violation by positive conduct, public disclosure or apology, etc.;

148. When the United States limited the import of colour television sets from the Republic of Korea, Samsung, Gold Star and Daewoo cut prices locally to increase sales, but then agreed with each other to cease cutting prices. The Fair Trade Office ordered an end to the price-fixing and required the companies to apologize in a local newspaper.[189]

149. Within this framework, and as an additional measure, the possibility may be considered of publishing cease and desist orders as well as the final sentence imposing whatever sanction the administrative or judicial authority have considered adequate, as is the case in France[190] and in the European Community. In this way the business community and especially consumers would be in a position to know that a particular enterprise has engaged in unlawful behaviour.

(v) Divestiture (in regard to completed mergers or acquisitions), or rescission (in regard to certain mergers, acquisitions or restrictive contracts);

150. This clause is applied in Mexico, where the Commission can order "partial or total deconcentration" of the merger.[191] In the United States, divestiture is a remedy in cases of unlawful mergers and acquisitions.[192] It is also to be noted that divestment powers could be extended to include dominant positions.[193]

(vi) Restitution to injured consumers;

(vii) Treatment of the administrative or judicial finding of illegality as prima facie evidence of liability in all damage actions by injured persons.

COMMENTARY TO ARTICLE 11

Appeals

1. Request for review by the Administering Authority of its decisions in light of changed circumstances.

2. Affording the possibility for any enterprise or individual to appeal within ... days to the (appropriate judicial authority) against the whole or any part of the decision of the Administering Authority, (or) on any substantive point of law.

151. Concerning the review of the administering authorities' decisions, in many instances, the circumstances prevailing at the time of decision-making may change. It is recalled that the Administering Authority can, for example, periodically - or because of a change of circumstances—review authorizations granted and possibly extend, suspend or subject the extension to the *fulfilment* of conditions and obligations. Therefore, enterprises should be equally given the possibility of requesting review of decisions, when circumstances prompting the decisions have changed or have ceased to exist.

152. The right of a person to appeal against the decision of the Administrative Authority is specifically provided for in the law of most countries (for example, Lithuania[194] and the Russian Federation[195]) or, without specific mention, may exist automatically under the civil, criminal or administrative procedural codes (for example, Colombia[196] and Portugal[197]). Competition laws of many countries appropriately provide various grounds for appellate review, including review (under various standards) on findings of fact and conclusions of law made in the initial decision.[198] In other countries, appeals are possible in cases specifically mentioned in the competition law, as is the case, for example, with decisions of the Swedish Competition Authority.[199]

153. Appeals may involve a rehearing of the case or be limited, as in Brazil, India and Pakistan, to a point of law. Appeals may be made to administrative courts, as in Colombia and Venezuela, or to judicial courts, as in Algeria, Côte d'Ivoire, Italy, Lithuania, Panama, Spain and Switzerland, or to both, as in the Russian Federation, where an appeal may be lodged in an ordinary court or a court of arbitration.[200] In this connection, a special administrative court may be created, as for example, in Australia,[201] Denmark,[202] Kenya,[203] Peru,[204] and Spain.[205] In India and Pakistan appeals go directly to the Supreme Court and the High Court, respectively. This is also true for Peru, where appeals go directly to the Supreme Court of Justice. In Germany, in the case of mergers, appeals may go either through the judicial machinery of the country or directly to the Minister of Economic Affairs. In Austria appeals go to the Superior Cartel Court at the Supreme Court of Justice.

154. The European Community has created a specialized Court of First Instance to hear antitrust appeals, since such cases had begun to be a burden on the European Court of Justice because of the extensive factual records involved.

COMMENTARY TO ARTICLE 12

Actions for damages

To afford a person, or the State on behalf of the person who, or an enterprise which, suffers loss or damages by an act or omission of any enterprise or individual in contravention of the provisions of the law, to be entitled to recover the amount of the loss or damage (including costs and interest) by legal action before the appropriate judicial authorities.

155. The proposed provision would give the right to an individual or to the State on behalf of an individual, or to an enterprise to bring a suit in respect of breaches of law, in order to recover damages suffered, including costs and interests accrued. Such civil action would normally be conducted through the appropriate judicial authorities, as is the case of the European Community, unless States specifically empower the Administering Authority in this regard. Provision for State *parens patriae* suit is found in a number of laws of developed countries.[206] Under such "class actions", users or consumers of a specific service or good who have suffered damage from *anti-competitive* behaviour, and whose individual claim would be too insignificant, have the right to institute action against enterprises. This is considered in the laws of Canada, France and the United States.

156. In certain countries competitors or injured persons generally are authorized to sue for violations against the economic order, including price-fixing, predatory pricing and tying agreements. This is the case under the laws of Mexico,[207] Peru[208] and Venezuela.[209]

Notes

[1] Cf. for example, Colombia, Finland, Hungary, India, United Kingdom, Switzerland.

[2] Cf. Chile, Japan, Poland.

[3] *Countries referring to the concept of "competition" in their Law include i.a.* Algeria, Argentina, Brazil, Canada, Côte d'Ivoire, Denmark, European Union, France, Germany, Greece, Italy, Lithuania, Mexico, Morocco, the Netherlands, Norway, Panama, Portugal, Spain, Sweden, Tunisia, United Kingdom. See also the list of some names of competition laws of the world in annex 1.

[4] Ordinance No. 95-06 of 23 Câabane 1415 of 25 January 1995 concerning Competition. Article 1.

[5] Competition Act of 1986. Section 1.1.

[6] Competition Act of 1989. Section 1.

[7] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Introduction.

[8] Law of Mongolia on Prohibiting Unfair Competition. Article 1.

[9] Act 65 of 11 June 1993 relating to Competition in Commercial Activity. Section 1-1 (The purpose of the Act). This law is referred to as the Competition Act and entered into force on 1 January 1994.

[10] Law No. 29 of 1 February 1996 on Rules for Protecting Competition and other Measures. Article 1.

[11] Legislative Decree No. 701 Against Monopolistic, Controlist and Restrictive Practices Affecting Free Competition. Article 2.

[12] Law of 30 May 1995 on Competition and the Limitation of Monopolistic Activity in Commodity Markets. Article 1.

[13] Competition Act (1993:20) of 14 January 1993. Section 1.

[14] Federal Law on Cartels and other Restrictions on Competition of 6 October 1995 (Lcart. RS 251, FF 1995 I 472. First Article).

[15] Northern Pacific Railway Co. v. United States, 356 U.S. 1, 4, 78 S.CT. 514, 517, 2 L. Ed.2d 545, 549 (1958).

[16] Law to Promote and Protect the Exercise of Free Competition. Article 1.

[17] Decision 285 of the Commission of the Cartagena Agreement. Article 1.

[18] Treaty establishing the European Economic Community (Treaty of Rome). Rome, 25 March 1957. In particular articles 2 and 3 (*f*).

[19] MERCOSUR/CMC/DEC. No. 29/94 on Public Policies that Distort Competitiveness. First Considerative Paragraph.

[20] Trade Practices Act, 1974. As amended. Section 45.

[21] Article 10 of the Federal Law on Economic Competition.

[22] See: TD/B/RBP/15/Rev.1, paras. 24 to 26.

[23] It should be noted that a competition authority, particularly if it is an independent administrative body, will not have the political mandate to determine how certain restrictions would affect the "national interest", or influence a country's "overall economic development". Because of this, authorizations should be based, in principle, on competition concerns. As an alternative, Governments might consider the possibility that their national authorities could assist the Government in the preparation, amending or reviewing of legislation that might affect competition, such as mentioned in article 8 (1) (f) of the Model Law, and give its advisory opinion on any proposed measure that might have an impact on competition.

[24] As is the case in Finland where the legislation states that "a restrictive practice shall be deemed to have detrimental effects if it, in a manner deemed unacceptable from the point of view of sound and effective economic competition . . .". Act on Restrictive Business Practices (709/1988). Section 7. Lithuania: which legislation prohibits "activities of economic entities having a dominant position in the market which restrict or may restrict competition by infringing economic interests". Law on Competition, 1992. Article 3 (1). Peru: which legislation prohibits "those acts and behaviours . . . generating harm to the general economic interest". Legislative Decree No. 701 Against Monopolistic, Controlist and Restrictive Practices Affecting Free Competition of 1992. Article 3.

[25] United States Department of Justice/Federal Trade Commission Horizontal Merger Guidelines, 2 April 1992.

[26] Standard Oil Co. of California and Standard Stations Inc. v. United States. United States Supreme Court, 1949. 337 U.S. 293, 299 S.Ct 1051, 93 L.Ed. 1371.

[27] Information provided by the Government of the United Kingdom.

[28] Producers might by anti-competitive agreement avoid operating in particular areas and that would not be a reason for defining a geographical market narrowly (comment transmitted by the Government of the United Kingdom).

[29] Générale Sucrière etc. v. Commission of European Communities, European Court of Justice, ruling of 15 December 1975, OJC 43, 25 February 1976.

[30] Peruvian legislation allows the Administering Authority to investigate and ban those acts by which government officials interfere with free competition. In a recent case, the Minister for Economics and Finance was summoned to inform about an agreement between the Ministry and various transport associations by which urban transportation tariffs were settled at uniform level. The Multi-sectorial Free Competition Commission considered the agreement as anti-competitive and decided that, in future, the Minister should refrain from promoting similar agreements. (Information submitted by the Peruvian Government.)

[31] Under the Restrictive Practices Act and its system of enforcement by court orders, the United Kingdom law is particularly strong. If an employee or a manager aids or abets his enterprise in breach of a court order, he can be made personally liable for aiding and abetting a contempt of court. This can provide a strong deterrent, although it is only likely to be publicly acceptable for individuals to be subject to fines or other penalties if there are strong procedural protection and if the law which they are being required to respect is clear. (Information provided by the Government of the United Kingdom.)

[32] The United Kingdom competition law clearly applies to the commercial activities of local governments, which in this respect has no particular status (although many of its activities do not amount to "the supply of goods or services" or are not "in the course of business", thereby taking them out of the scope of United Kingdom competition law). The Crown is immune from action under United Kingdom competition law, but it is notable that not all State activities are Crown activities (for example, the National Health Service). It is also government policy for the Crown to behave as if it were subject to the provisions of competition law in its commercial activities.

[33] Intellectual property law is that area of law which concerns legal rights associated with creative effort or commercial reputation and goodwill. The subject matter of intellectual property is very wide and includes literary and artistic works, films, computer programs, inventions, designs and marks used by traders for their goods and services. The law deters others from copying or taking unfair advantage of the work or reputation of another and provides remedies should it happen (David Bainbridge, *Intellectual Property*, Pitman Publishing, London, 1994, 2 Ed). There are several different forms of rights or areas of law giving rise to rights that together make up intellectual property. Following the results of the Uruguay Round of Multilateral Trade Negotiations (Final Act of the Uruguay Round and the *Marrakech* Agreement Establishing the World Trade Organization), intellectual property refers to the categories that are considered in Sections 1 through 7 Part II of Annex 1C to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs): copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout-designs (topographies) of integrated circuits and protection of undisclosed information (trade secrets). It should also consider as intellectual property protection any case of unfair competition (when involving an infringement of an exclusive right) considered under article 10 *bis* of the Paris Convention for the Protection of Industrial Property (1967). It is also important to take note of the Berne Convention for the Protection of Literary and Artistic Works (1971) and the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961), also referred to as the "Rome Convention".

[34] Royal Decree No. 157/1992 of 21 February 1992, developing Law 16/1989 of 17 July 1989 concerning block exemptions, singular authorizations and a registry for safeguarding competition. BOE 29 February 1992 (RCL 1992, 487). In particular article 1 (*f*).

[35] Section 144 of Copyright, Patents and Designs Act 1988 and Section 51 of Patents Act 1977. Information provided by the Government of the United Kingdom.

[36] Commission Regulation (EEC) No. 2349/84 of 23 July 1984 on patent licensing agreements; Commission Regulation (EEC) No. 4087/88 of 30 November 1988 on franchising agreements; Commission Regulation (EEC) No. 556/89 of 30 November 1988 on know-how licensing agreements.

[37] Antitrust guidelines for licensing of intellectual property, issued by the United States Department of Justice and the Federal Trade Commission, adopted and published on 6 April 1995. It is to be noted that the guidelines state the antitrust enforcement policy to the licensing of intellectual property protected by patent, copyright, and trade secret law, and of know-how. They do not cover the antitrust treatment of trademarks. Although the same general antitrust principles that apply to other forms of intellectual property also apply to trademarks, the guidelines deal with technology transfer and innovation-related issues that typically arise with respect to patents, copyrights, trade secrets, and know-how agreements, rather than with product-differentiation issues that typically arise with respect to trademarks.

[38] Article 40 (Part II, Section 8) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Annex 1C of the Marrakech Agreement Establishing the World Trade Organization (WTO).

[39] Centrafarm B.V. v. Sterling Drug, 1974 ECR 1147 (EC); Copperweld Corp. v. Independence Tube Corp., 104 S.CT 2731 (1984).

[40] Expanding the rule of Copperweld. Satellite Fin. Planning Corp. v. First National Bank, 633 F. Sup. 386 (D. Del. 1986), but see Sonitrol of Fresno v. AT&T, 1986-1 Trade Cas (CCII) Section 67,080 (32.6 per cent ownership does not establish lack of rivalry).

[41] See: United States Justice Department's 1988 Antitrust Enforcement Guidelines for International Operations. At 62-63.

[42] Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance, 1970, as amended up to 1983. Section 2 (1) (*a*).

[43] Ordinance No. 95-06 of 25 January 1995 on Competition. Article 6.

[44] The Monopolies and Restrictive Trade Practices Act of 1969, as amended up to Act 58 of 1991. Section 2 (*a*).

[45] Maintenance and Promotion of Competition Act, 1979. Section 1 (x) (*a*).

[46] Law of 24 February 1990 on Counteracting Monopolistic Practices. Article 2 (3) (*b*).

[47] Law of 30 May 1995 on Competition and the Limitation of Monopolistic Activity in Commodity Markets. Article 6 (2). Refers to "agreements (coordinating actions) concluded in any form".

[48] Law for the Protection of Competition of 1989, in particular Article One, referred to "prohibited conducts".

[49] Law No. 91-999 of 27 December 1991 on Competition. Article 7.

[50] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Article 11.

[51] Legislative Decree No. 701 Against Monopolistic, Controlist and Restrictive Practices Affecting Free Competition of 1992. Article 6.

[52] Law to Promote and Protect the Exercise of Free Competition of 1991. Article 5.

[53] Decision 285 of the Commission of the Cartagena Agreement. Norms to Prevent or Correct Distortions in Free Competition Generated by Restrictive Competitive Practices. Article 3.

[54] Decision MERCOSUR/CMC/No. 21/94. Article 3.

[55] Concerning the parallel increases of prices, it should be noted that not all cases could be considered as evidence of tacit or other agreement. This is so, for example, in the case of parallel price increases that result from the increase in valued added tax, in which the prices of goods or services will rise in the same

proportion and at the same time (comment transmitted by the Government of the Federal Republic of Germany).

[56] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Article 11 (2).

[57] Decree 2153 from 30 December 1992 on Functions of the Superintendency of Industry and Commerce. Article 47.

[58] Decision 285 of the Commission of the Cartagena Agreement. Article 4 (f).

[59] Monopolies and Restrictive Trade Practices Act, 1969, as amended up to 1991. Section 32.

[60] Northern Pacific Railway Co. v. United States, 356 US 1 (1958).

[61] Law of 30 May 1995 on Competition and the Limitation of Monopolistic Activity in Commodity Markets. Articles 6 (1) and 8.

[62] Information submitted by the Government of India.

[63] In addition to the United States, a number of countries in recent amendments to their legislation have made price fixing and collusive tendering a per se prohibition.

[64] Webb-Pomerene Export Trade Act of 1918 and the 1982 Export Trading Company Act. It is to point out that United States Antitrust Law (through the Foreign Trade Antitrust Improvements Act of 1982, 15 U.S.C. Section 6 (a)) applies to anti-competitive effects on United States export markets, and not merely on United States domestic markets. Also, joint ventures formed under the United States Export Trading Company Act cannot be described as "export cartels", because they do not possess market power in domestic or foreign markets; rather, they are export-oriented joint ventures whose activities are circumscribed to ensure that they have no anti-competitive effects on United States markets. (Information provided by the United States Government.)

[65] Concerning export cartels, United States antitrust law (through the Foreign Trade Antitrust Improvements Act of 1982, 15 U.S.C. Section 6 (a)) applies to anti-competitive effects on United States export markets and the domestic market. It should also be noted that joint ventures formed under the United States Export Trading Company Act cannot be described as "export cartels", because they do not possess market power in any United States domestic or foreign market; rather, they are export-oriented joint ventures whose activities are carefully circumscribed to ensure that they have no anti-competitive effects on United States markets. (Comment transmitted by the Government of the United States.)

[66] See "Collusive tendering" - study by the UNCTAD secretariat (TD/B/RBP/12).

[67] Restrictive Trade Practices, Monopolies and Price Control Act, No. 14 of 1988. Section 11 (4).

[68] Information provided by the Swedish Government.

[69] The Monopolies and Restrictive Trade Practices Act, section 33, subsection 1, para. (9).

[70] Ibid., para. (1).

[71] *In re* Insurance Antitrust Litigation, DKT 89-16530, reported in 60 BNA ATRR 909, 27 June 1991.

[72] Comment transmitted by the Commission of the European Community. The exemption rules on exclusive distribution agreements refer to Commission Regulation (EEC) No. 1983/83 on the Application of article 85 (3) of the Treaty of Rome to categories of exclusive distribution agreements. *Official Journal* L73, 30 June 1983, p. 1; Corrigendum OJ L281, 13 October 1983, p. 24.

[73] The Associated Press (AP) v. United States exemplifies this point. 326 US, 165S Ct. 1416, 86L. Ed. 2013, rehearing denied 326 (802) 1945. For further details see: TD/B/RBP/15/Rev.1, para. 54.

[74] Wilk v. American Medical Association, 1987, 2CCH Trade Cas. Section 67,721 (N.D. Ill. 1987).

[75] As an example, the New York Stock Exchange (NYSE) ordered a number of its members to remove private direct telephone wire connections previously in operation between their offices and those of the non-member, without giving the non-member notice, assigning him any reason for the action, or affording him an opportunity to be heard. The plaintiff (a securities dealer) alleged that in violation of Sherman 1 and 2 the NYSE had conspired with its members firms to deprive him of the private wire communications and ticker service, and that the disconnection injured his business because of the inability to obtain stock quotations quickly, the inconvenience to other brokers in calling him and the stigma attached to the disconnection. The Supreme Court stated that, in the absence of any justification derived from the policy of another statute or otherwise, the NYSE had acted in violation of the Sherman Act; that the Securities Exchange Act contained no express antitrust exemption to stock exchanges; and that the collective refusal to continue private wires occurred under totally unjustifiable circumstances and without according fair procedures. Silver v. New York Stock Exchange. United States Supreme Court, 1963. 373 US 341, 83 S.Ct. 1246, 10 L.Ed.2d 389 (1963). For further details see: *idem*, para. 55.

[76] An alternative for using the expression "will produce net public benefit" in the last part of the proposed article, might be using "do not produce public harm". This way it will be possible to avoid unjustified burden of proof on firms and the result in pro-competitive practices. (Comment transmitted by the United States Government.)

[77] Comment submitted by the Government of the United States.

[78] Comment transmitted by the Commission of the European Communities. The examples mentioned in article 85 (1) are: (*a*) directly or indirectly fix purchase or selling prices or any other trading conditions; (*b*) limit or control production, markets, technical development, or investment; (*c*) share markets or sources of supply; (*d*) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; (*e*) make 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.

[79] Spanish legislation on this matter was developed by special regulations. Royal Decree 157/1992 of 21 February 1992, developing Law 16/1989 of 17 July 1992.

[80] Decree 2153 of 30 December 1992, on the Superintendency of Industry and Commerce. Article 49.

[81] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Article 17 (1).

[82] Monopolies and Restrictive Trade Practices Act. Section 32.

[83] Law on Competition, 1992. Article 5.

[84] Law of 30 May 1995 on Competition and the Limitation of Monopolistic Activity in Commodity Markets. Article 6 (3).

[85] Law No. 188/1991 of 8 July 1991 on Protection of Economic Competition. Article 5. Information provided by the Government of the Slovak Republic.

[86] Comment provided by the United States Government.

[87] It is necessary to distinguish between using market share purely as a jurisdictional hurdle - as in the United Kingdom where the 25 per cent market share provides for the firm(s) to be investigated rather than presuming guilt, or a critical market share figure giving rise to automatic controls, such as in the Russian Federation, where firms with over 35 per cent share are requested to notify the competition authority, are placed on the "monopoly register" and are subject to an element of State oversight (Comment transmitted by the Government of the United Kingdom).

[88] Fair Trading Act, 1973. Section 6 (1). Id. Section 6 (2).

[89] Ibid.

[90] Law of 24 February 1990 on Counteracting Monopolistic Practices. Article 2 (7).

[91] Competition Protection Act of the Czech Republic, 1991. Article 9.

[92] Decree-Law No. 371/93 of 29 October 1993 on the Protection and Promotion of Competition. Article 3 (3) (*a*).

[93] Law of Mongolia on Prohibiting Unfair Competition. Article 3 (1).

[94] Law on Competition, 1992. Article 2: Definition of "Dominant position".

[95] Law of 30 May 1995 on Competition and the Limitation of Monopolistic Activity in Commodity Markets. Article 4.

[96] Act against Restraints of Competition, 1957, as amended. Section 22 (3).

[97] Information provided by the Commission of the European Communities. Akzo Case, 3 July 1991.

[98] Information provided by the Commission of the European Communities. Michelin Judgement, 9 November 1993.

[99] CJE, 14 February 1978. United Brands Company and United Brands Continental BV v. Commission, 27/76, 1978, ECR 207.

[100] Comment transmitted by the Commission of the European Communities. Vetro Piano in Italia Judgement of 10 March 1992.

[101] Information provided by the Commission of the European Communities. Decision "Nestlé-Perrier" of 22 July 1992.

[102] Information provided by the Government of the United Kingdom.

[103] or additional information on United States Law (Supreme Court Decisions) on non-price vertical restraints in distribution, see: White Motor Co. v. United States, 372 U.S. 253, 83 S.CT. 696, 9 L.Ed.2d 738 (1963) (applies the rule of reason); United States v. Arnold Schwinn & Co., 388 U.S. 365, 87 S.CT. 1856, 18 L.Ed.2d 1249 (1967) (applies the "per se" approach), and particularly, Continental T.V. Inc. v. GTE Sylvania Inc., 433 U.S. 36, 97 S.CT. 2549, 53 L.Ed.2d 568 (1977) (rejects the "per se" approach of Schwinn and returns to the rule of reason).

[104] See Hoffman-La Roche case.

[105] Law of 2 September 1993 of the People's Republic of China for Countering Unfair Competition. Article 11. This law also lists a number of cases not considered unfair such as, selling fresh goods, seasonal lowering of prices, changing the line of production or closing the business.

[106] Law of Mongolia on Prohibiting Unfair Competition. Article 4 (3).

[107] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Article 21 (h).

[108] McDonald v. Johnson and Johnson, No. 4-79-189 (D. Minn, 14 April 1982).

[109] Hugin-Liptons case. Commission Decision of 8 December 1977 (Official Journal of the European Communities, L.22 of 17 January 1978). Also, Instituto Chemioterapico Italiano S.P.S. - Commercial Solvents: Judgement of 6 March 1974.

[110] See: Effem and Atlas Building Products Company v. Diamond Block & Gravel Company cases.

[111] FTC v. Morton Salt Co., 334 U.S. 37, 1948.

[112] RRTA v. Carona Sahu Company Ltd., RTPE No. 2, 1974, MRTPC order of 21 March 1975, Grindwell Norton, RTPE No. 29, 1974, MRTPC order of 21 November 1975.

[113] Legislative Decree No. 701 Against Monopolistic, Controlist and Restrictive Practices Affecting Free Competition, 1992. Article 5 (b). (Information provided by the Peruvian Government.)

[114] Trade Practices Act, 1974, Section 49, subsection 1.

[115] Commentary provided by the United States Government.

[116] Transfer pricing could mainly be a taxation problem and very rarely a means of predation (comment transmitted by the Government of the Federal Republic of Germany).

[117] Commerce Act 1986. Part Two, Section 37 (1).

[118] Information provided by the Swedish Government.

[119] Reference is made to the Consumer Protection Act 1987, where it is an offence to give a "misleading price indication". When considering whether or not a particular price indication is misleading, the parties can refer to a statutory Code of Conduct approved by the Secretary of State in 1988. Paragraph 1.6.3 (c) advises traders not to use a recommended price in a comparison unless "the price is not significantly higher than prices at which the product is genuinely sold at the time you first made the comparison". In other words, a dealer who says "Recommended Retail Price XXX Pounds, my Price is half less", may be regarded as giving a misleading price indication and thus committing a criminal offence under the Consumer Protection Act if that recommended retail price is significantly higher than the prices at which the goods are usually sold by other dealers.

[120] The Competition Act, 1986, Section 37.3 (4).

[121] Official Journal of the European Communities, No. L.377/16 of 31 December 1980.

[122] The Competition Act, 1986. Section 37.3 (6).

[123] Comment provided by the United States Government.

[124] FTC Decision of 18 April 1978. Information transmitted by the Government of Japan.

[125] Cinzano and Cie. GmbH v. Jara Kaffee GmbH and Co. Decision of 2 February 1973.

[126] Tepea B.V. v. E.C. Commission, Case 28/77; Commission decision of 21 December 1976. The Commission's decision was upheld by the European Court of Justice in its ruling of 24 June 1978.

[127] Judgement given on 10 October 1978, Case 3/78: (1978) ECR 1823.

[128] Decisions "Tetra Pak" of 22 July 1991 and "Hilti" of 22 December 1987. They were confirmed by, respectively, the Court of First Instance Judgement of 6 October 1994, and Judgement of the Court of Justice of the European Communities of 2 March 1994.

[129] Comment provided by the United States Government.

[130] Concerning unilateral refusals to deal, see: United States v. Colgate & Co., Supreme Court of the United States, 1919. 250 U.S. 300, 39 S.CT. 465, 53 1.Ed. 992, 7 A.L.R. 443. Also: United States v. Schrader's Son Inc., 252 U.S. 85, 40 S.CT. 251, 64 L.Ed. 471 (1920).

[131] Comment provided by the United States Government.

[132] The United States Supreme Court had defined tying arrangements as: "an agreement by a party to sell one product but only on the condition that the buyer also purchase a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier". Northern Pac. Ry. v. United States, 356 U.S. 1, 5-6, 78 S.CT. 514, 518, 2 L.Ed.ed 545 (1958). Also it has stated that: "the usual tying contract forces the customer to take a product or brand he does not necessarily want in order to secure one which he does desire. Because such an arrangement is inherently anti-competitive, we (the Supreme Court) have held that its use by an established company is likely "substantially to lessen competition" although a relatively small amount of commerce is affected." Brown Shoe Co. v. United States, 370 U.S. 294, 330, 82 S.CT. 1502, 1926, 8 L.Ed. 2d 510 (1962).

[133] For a discussion of tied purchasing in its various forms and the legal situation in various countries, see: UNCTAD, "Tied purchasing" (TD/B/RBP/18).

[134] H.R. 4972, amending Section 271 (d) of the Patent Act.

[135] Ordinance No. 95-06 of 25 January 1995 on Competition. Article 7.

[136] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Article 21 (f).

[137] Law of Mongolia on Prohibiting Unfair Competition. Article 4 (5).

[138] Federal Law on Cartels and other Restrictions to Competition of 6 October 1995. (cart, RS 251, FF 1995 I 472. Article 7 (f)).

[139] MERCOSUR/CMC/No. 21/94, Decision on protection of competition. Annex, article 4 (d).

[140] So far, merger control has been presented in the Model Law as in the Set, under the concept of "abuse of dominant position". In line with modern competition legislation, a separate provision for merger control is now proposed in the Model Law.

[141] Information provided by the Commission of the European Communities. Council Regulation (EEC) No. 4064/89 of 21 December 1989 on the control of concentrations between undertakings (OJ L395, 30 December 1989), p. 1. In particular article 1.

[142] Council Regulation (EEC) No. 4064/89 of December 1989 on the control of concentrations between undertakings (OJ L 395, 30 December 1989) as amended by Council Regulation (EC) No. 1310 97 (OJ L 180, 9 July 1997).

[143] For a detailed analysis of the concentration of market power through mergers, takeovers, joint ventures and other acquisitions of control, and its effects on international markets, in particular the markets of developing countries, see TD/B/RBP/80/Rev.1.

[144] Provisions concerning the referral to the competent authorities of the member States are considered in article 9 of Council Regulation 4064/89.

[145] For example, the Korean Fair Trade Office held illegal an acquisition combining a Company with 54 per cent of the PVC stabilizer market and another company with 19 per cent of the same market. The acquiring company was ordered to dispose of the stock. In re Dong Yang Chemical Industrial Co., 1 KFTC 153. 13 January 1982.

[146] Under the United States experience, conglomerate mergers are highly unlikely to pose competitive problems (comment submitted by the United States Government). In the United Kingdom, it is unlikely that the merger would be referred if there were no overlap in any market (comment transmitted by the Government of the United Kingdom).

[147] For a full account of these cases, see TD/B/RBP/48, paras. 12-22.

[148] The United States firm Gillette acquired 100 per cent of Wilkinson Sword, a United Kingdom company, with the exception of the European Union and United States based activities. Because of merger control regulations in the European Union and the United States, Gillette had so far acquired only a 22.9 per cent non-voting capital participation in Eemland Holding N.V., a Netherlands firm and sole shareholder of Wilkinson Sword Europe, accompanied, however, by additional agreements providing for a competitively significant influence on Eemland and consequently also on Wilkinson Sword Europe. Gillette and Wilkinson are the worldwide largest manufacturers of wet-shaving products, including razor blades and razors, the relevant product market as defined by all authorities involved. Although the market shares of both firms varied from country to country, they held in most relevant geographical markets the two leading positions. In many West European countries, Gillette and Wilkinson accounted for a combined market share of around 90 per cent. In March 1993, Eemland disposed of its Wilkinson Sword business to Warner Lambert and retransferred the trademarks and business in various non-EU countries. The transactions described led to the initiation of competition proceedings in 14 jurisdictions worldwide. The case illustrates particularly well the problems which can be raised by international cases owing to the fact that they may cause competitive effects in many countries and consequently lead to as many competition proceedings under different laws. For the enterprises concerned, as well as for the administrations involved, such cases may imply an extremely costly operation in terms of human and financial resources. Obviously, these problems would not exist if such cases could be dealt with under one law by one authority. As such author-

ity does not exist, close cooperation among the competition authorities appears to be in the interest of both the participating firms and the competition authorities involved. For additional cases, see: Restrictive business practices that have an effect in more than one country, in particular developing and other countries, with overall conclusions regarding the issues raised by these cases (UNCTAD TD/RBP/CONF.4/6). The Boeing-McDonnell Douglas Merger is also a case of major interest since the proposed transaction notified both to the US and the EU Competition authorities initially led to divergent positions being taken by these two authorities as to the desirability of allowing the merger to proceed. The merger of Boeing Co. and McDonnell Douglas Corp. was to bring together the two major US-based players in the international civil aircraft industry, leaving only one other major competitor, the EU-based Airbus Industry group. In the US, the reviewing authority, the Federal Trade Commission determined not to oppose the transaction, due to a view that, in many respects, McDonnell Douglas was no longer a vigorous competitor. The takeover by Boeing of a nearly failing firm was considered not adversely affecting the state of competition in the line of business. In contrast, pursuant to its case-law on the 1991 prohibited attempted merger between EU-based Alenia-Aérospatiale and De Havilland (the latter being a Canada-based failing firm, subsidiary of Boeing Co.) the EU Commission signalled, upon notification of Boeing Co. of its intent to absorb McDonnell Douglas Corp., fundamental concerns about the merger leading to an apparent dead-end and to concerns about potential wider repercussions for international trade of a failure to find a consensual approach. The issue was found when Boeing Co. agreed to undertakings relating to the suppression of its long term exclusive dealing contracts with North-American airlines it had previously negotiated with them and to other matters. For further details see EU Commission, *XXVIIth Annual Report on Competition Policy 1997*, Luxembourg, 1998.

[149] Note that under United Kingdom law, interlocking directorships, alone, would not give rise to a merger situation. Interlocking directorship without substantial cross-share holdings are more likely to give rise to restrictive agreements than mergers. Comment submitted by the Government of the United Kingdom.

[150] The situation has to be considered not only at the level of directors. In the United States it is illegal not only for a *Company* to have one of its directors serve also as a director of a competitor, but also for it to have one of its corporate officers serve as a director of a competitor.

[151] General Assembly resolution 39/248 of 9 April 1995.

[152] Id. Section 15.

[153] Information provided by the Swedish Government.

[154] The Monopolies and Restrictive Trade Practices Ordinance (amended), June 1980.

[155] Decree 2153 of 30 December 1992, on the Superintendency of Industry and Commerce. Article 3. The Superintendency is also responsible for the administration of the following legislation: patents, trademarks, consumer protection, chambers of commerce, technical standards and metrology.

[156] Decree Law No. 25868. Law creating the National Institute for the Safeguard of Competition and the Protection of Intellectual Property (INDECOPI). Article 2. INDECOPI is also responsible for the administration of the following legislation: dumping and subsidies, consumer protection, advertising, unfair competition, metrology, quality control and non-custom barriers, bankruptcy procedures, trademarks, patents, plant varieties, appellations of origin and transfer of technology.

[157] Law 22.262 for the Safeguarding of Competition. Article 7.

[158] Decree 511 from 27 October 1980. Reference to Legislative Decree 2.760. Article 16.

[159] Legislative Decree No. 701 Against Monopolistic, Controlist and Restrictive Practices Affecting Free Competition, 1992. Article 10.

[160] Law 8884 of 11 June 1994 on Changes to the Administrative Economic Protection Council.

[161] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Article 40.

[162] Rules for the Protection of Competition and the Market. Article 10 (3).

[163] Federal Law on Economic Competition, 1992. Article 26 (ii), second paragraph. This provision was developed by the Internal Rules of the Federal Competition Commission from 12 October 1993. Article 33.

[164] Federal Law on Economic Competition, 1992. Article 27.

[165] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Article 38 (3) (d).

[166] Price Fixing and Anti-Monopoly Act, B.E. 2522 (1979). Section 12 (6).

[167] Law of 2 September 1993 of the People's Republic of China for Countering Unfair Competition. Article 32.

[168] Comment transmitted by the Government of the United States.

[169] Law No. 8884 of 11 June 1994. Article 14.XIV.

[170] Ibid., Section 16 (2).

[171] Decree-Law No. 371/93 of 29 October 1993 on the Protection and Promotion of Competition. Articles 13 (1) (*c*) and 13 (2).

[172] Royal Decree 157/192 of 21 February 1992. Chapter III, articles 19 to 23.

[173] Ordinance 86-1243 of 1 December 1986 on the Liberalization of Prices and Competition. Article 44.

[174] Statute of 15 November 1991 on the Organization and Activities of the Commission for the Protection of Competition. Article 4 (3).

[175] Decree-Law No. 371/93 of 29 October 1993 on Protection and Promotion of Competition. Article 13 (1) (b), (c) and (d).

[176] Law 16/1989 of 17 July for the Protection of Competition. Article 26. Additional information on this matter can be found at: Tribunal de Defensa de la Competencia. Memoria 1992, p. 66.

[177] Federal Law on Economic Competition, 1992. Article 24 (V) and (VI).

[178] Law on the Safeguarding of Economic Competition. Article 50 (b).

[179] Federal Law on Economic Competition, 1992. Article 31, para. 2; and Internal Rules of the Federal Commission for Competition of 12 October 1993. Article 4.

[180] Act 65 of 11 June 1993 relating to Competition in Commercial Activity. Section 6-2 (Securing of Evidence).

[181] Decree-Law No. 37193 of 29 October 1993 on Protection and Promotion of Competition. Article 19.

[182] Federal Law on Cartels and other Restrictions on Competition of 6 October 1995 (Cart. RS 251, FF 1995 I 472. Article 25).

[183] Legislative Decree No. 701 Against Monopolistic, Controlist and Restrictive Practices Affecting Free Competition, 1992. Article 23. (Information provided by the Peruvian Government.)

[184] Information provided by the Commission of the European Communities.

[185] H.R. 29, Antitrust Amendment Act of 1990.

[186] 60 BNA ATRR 459.

[187] Information provided by the United States Government.

[188] Act No. LVII of 1996 on the Prohibition of Unfair and Restrictive Market Practices. Article 72 (1) (*c*) and 72 (2).

[189] *In re* Samsung Electronics Company, 4 KFTC 58. 26 December 1984.

[190] Ordinance 86-1243 of 1 December 1986 on Liberalization of Prices and Competition. Articles 12 and 15.

[191] Federal Law on Economic Competition, 1992. Article 35 (I).

[192] Information provided by the Government of the United States. It is to be noted that in the United States, divestiture is considered as a "structural remedy", requiring some dismantling or sale of the corporate structure or property which contributed to the continuing restraint of trade, monopolization or acquisition. Structural relief can be subdivided into three categories known as the "Three Ds": dissolution, divestiture and divorcement. "Dissolution" is generally used to refer to a situation where the dissolving of an allegedly illegal combination or association is involved; it may include the use of divestiture and divorcement as methods of achieving that end. "Divestiture" refers to situations where the defendants are required to divest themselves of property, securities or other assets. "Divorcement" is a term commonly used to indicate the effect of a decree where certain types of divestiture are ordered; it is especially applicable to cases where the purpose of the proceeding is to secure relief against antitrust abuses flowing from integrated ownership or control (such as vertical integration of manufacturing and distribution functions or integration of production and sale of diversified products unrelated in use or function). These remedies are not created in express terms by statute. But Section 4 of the Sherman Act and Section 5 of the Clayton Act empower the Attorney-General to institute proceedings in equity to "*prevent* and restrain violations of the antitrust laws", and provide that "Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined *otherwise prohibited*" (emphasis supplied). Further, aside from these general statutory authorizations, the essence of equity jurisdiction is the power of the court to mould the decree to the necessities of the particular case. Thus, invocation by the Government of the general authority of a court of equity under Sherman or Clayton Acts enables the court to exercise wide discretion in framing its decree so as to give effective and adequate relief. Chesterfield Oppenheim, Weston and McCarthy, *Federal Antitrust Laws*, West Publishing Co., 1981, pp. 1042-43.

[193] Comment submitted by the Government of the United Kingdom.

[194] Law on Competition, 1992. Article 14 concerning appeals against decisions of the Institution of Price and Competition. It is to point out that the law establishes that appeals to court shall not suspend compliance with directions and decisions, unless the court stipulates otherwise.

[195] Law of 30 May 1995 on Competition and the Limitation of Monopolistic Activity in Commodity Markets. Article 28 on procedure for appealing against decisions of the Anti-Monopoly Committee.

[196] Decree 2153 of 30 December 1992, on the Superintendency of Industry and Commerce. Article 52, fifth paragraph.

[197] Decree-Law No. 371/93 of 29 October 1993 on Protection and Promotion of Competition. Articles 28 and 35.

[198] Comment transmitted by the Government of the United States.

[199] Section 62 of the Competition Act, 1993. Only in those cases mentioned in Sections 60 and 61 of the Act may decisions taken by the Swedish Competition Authority be appealed to the Stockholm City Court.

[200] Law of 30 May 1995 on Competition and the Limitation of Monopolistic Activity in Goods Markets, article 28.

[201] Trade Practices Tribunal.

[202] Appeal Tribunal appointed by the Minister of Commerce.

[203] Restrictive Trade Practices Tribunal.

[204] Tribunal for the Defence of Competition and Intellectual Property.

[205] Court for the Protection of Competition.

[206] See the Hart-Scott-Rodino Antitrust Improvement Act of 1976, with respect to the United States.

[207] Federal Law on Economic Competition, 1992, article 38.

[208] Legislative Decree Against Monopolistic, Controlist and Restrictive Practices Affecting Free Competition. Article 25.

[209] Law to Promote and Protect the Exercise of Free Competition. Article 55.

ANNEXES

ANNEX I

Names of competition laws around the world

Several countries adopted competition laws in the 1980s and 1990s.
Below are examples of names given to these laws by countries, in alphabetical order

Country	Name of the competition law
Algeria	Law on the Safeguarding of Economic Competition
Argentina	Law No. 22 262 of 1980 on Competition
Australia	Trade Practices Act 1974
Austria	Cartel Act of 1998
Belgium	Law of 5 August 1991 on the Protection of Economic Competition
Brazil	Federal Law No. 8 884 of 1994 on the Competition Defense System
Canada	Competition Act
Chile	Antimonopoly Law
China	Antimonopoly Law
Colombia	Law on Promotion of Competition and Restrictive Commercial Practices
Costa Rica	Law on the Promotion of Competition and Effective Consumer Protection
Côte d'Ivoire	Law on Competition
Czech Republic	Commercial Competition Protection Act
Denmark	Competition Act 1997
European Union	Rules of Competition of the Treaty instituting the European Union
Finland	Act on Restrictions on Competition
France	Ordinance No. 86 - 1243 of 1 December 1986 on Liberalization of Prices and Competition
Germany	Act Against Restraints of Competition of 1957
Greece	Law 703/77 on the Control of Monopolies and Oligopolies and Protection of Free Competition
Hungary	Law on the Prohibition of Unfair Trade Practices and Restrictive Market Practices (Act No LVII of 1996)
India	Monopolies and Restrictive Trade Practices (MRTP) Act
Ireland	Competition Act 1991 and Mergers and Takeovers (Control) Acts 1978 to 1996
Israel	Restraint of Trade Law, 5748-1988
Italy	Rules for the Protection of Competition and the Market
Jamaica	Fair Competition Act
Japan	Act Concerning the Prohibition of Private Monopolization and Maintenance of Fair Trade also called "Antimonopoly Law"
Kenya	The Restrictive Trade Practices, Monopolies and Trade Control Act
Luxembourg	Law of 17 June 1970 governing Restrictive Commercial Practices

Country	Name of the competition law
Malta	Act to Regulate Competition and Provide for Fair Trading
Mexico	Federal Law on Economic Competition
Mongolia	Law on Prohibiting Unfair Competition
Netherlands	Competition Act of 22 May 1997
New Zealand	Commerce Act 1986
Norway	Competition Act of 1993
Pakistan	The Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance
Panama	Law on the Protection of Competition
Peru	Legislative Decree Against Monopolistic, Controlist and Restrictive Practices Affecting Free Competition
Poland	Law of Counteracting Monopolistic Practices Act of 24 February 1990
Portugal	Decree-Law No. 371/93 of 29 October 1993 on the Protection and Promotion of Competition
Republic of Korea	Monopoly Regulation and Fair Trade Act of 1980
Russian Federation	Law on Competition and the Limitation of Monopolistic Activity in Product Markets of 1991
Slovakia	Act No. 188/1994 Coll. on the Protection of Economic Competition
South Africa	Maintenance and Promotion of Competition Act 1979
Spain	Law 16/1989 on the Defense of Competition Protection of Competition Law
Sri Lanka	The Fair Trading Commission Act
Sweden	Competition Act of 1993
Switzerland	Federal Law on Cartels and other Restrictions in Competition
United Kingdom	Fair Trading Act and Competition Act, Restrictive Trade Practices Act, Resale Prices Act
United States of America	Antitrust Laws (Sherman Act, Clayton Act, Federal Trade Commission Act, Hart-Scott-Rodino Antitrust Improvements Act)
Venezuela	Law to Promote and Protect the Exercise of Free Competition

ANNEX II

Worldwide antitrust merger notification system

Mandatory preclosing notification system		Mandatory postclosing notification system	Voluntary notification system
Albania	Kenya	Argentina	Australia
Argentina	Latvia	Denmark	Chile
Austria	Lithuania	Greece	Côte d'Ivoire
Azerbaijan	Macedonia	Indonesia (as of	France
Belarus	Mexico	March 2000)	New Zealand
Belgium	Republic of Moldova	Japan	Norway
Brazil	Netherlands	Republic of Korea	Panama
Bulgaria	Poland	Russian Federation	United Kingdom
Canada	Portugal	South Africa	Venezuela
Colombia	Romania	Spain	
Croatia	Russia	The Former Yugoslav	
Cyprus	Slovak Republic	Republic of Macedonia	
Czech Republic	Slovenia	Tunisia	
EU	South Africa		
Estonia	South Korea		
Finland	Sweden		
Germany	Switzerland		
Greece	Taiwan Province		
Hungary	of China		
India	Thailand		
Ireland	Tunisia		
Israel	Turkey		
Italy	Ukraine		
Japan	United States		
Kazakhstan	Uzbekistan		
	Yugoslavia		

Source: UNCTAD Handbook

ANNEX III

A selection of merger-control systems

1. Countries with mandatory preclosing notification system

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
Brazil					
Mandatory system.	Resulting market share at least 20 per cent in the relevant market or worldwide turnover over 400 million reales. Filing should be made within 15 working days after execution of the transaction.	30 days at SEA + 30 days at SDE + 60 days at CADE, interrupted every time the authorities issue official letters asking for further information. No suspension effects.	Transactions which injure or limit competition will only be cleared if they result in efficiencies, and such efficiencies benefit consumers.	Failure to file: penalties may range from 55 000 reales to 5.5 million reales.	Regulated sectors are also subject to special rules.
Canada					
Mandatory system.	Merger pre-notification is mandatory if statutory asset and sales thresholds are exceeded. The parties may file at any time after they have an agreement in principle, provided that sufficient information is available to complete the form.	A 14- or 42-day waiting period, depending on whether a short- or long-form filing is elected (subject to the right of the Commissioner to extend the period in the case of a short form). In rare circumstances, a waiting period can be abridged by the Director. Suspension during waiting periods.	Whether the merger will or is likely to prevent or lessen competition substantially in a relevant market.	The failure to notify a pre-notifiable transaction is a criminal offence subject to a fine of C$ 50 000.	Transactions involving non-Canadians must be notified under the Investment Canada Act, and may be reviewable. Media, insurance company, loan company and bank mergers, among others, may be subject to notification and review under industry-specific legislation.
Colombia					
Mandatory system.	Companies carrying on the same activities, e.g. production, supply, distribution, or consumption of a given article, raw material, product, merchandise, or service, whose assets, either individually or jointly, are at least 20 million pesos (approximately US$ 10 000) must notify all consolidation and/or merger projects.	The Superintendent has 30 banking days from the date of submission of the information to reject the proposed merger. If within that time the Superintendent does not respond, the merger may proceed.	Whether competition is unduly restricted by the merger.	If all legal requirements are not met, the merger will be considered null and void.	A Constitutional Court ruling that Decree 1122 of 1999 is unconstitutional is a setback for merger control in Colombia; it is expected that the regulations contained in Decree 1122 will be re-enacted in the near future, as the Court decision was procedurally flawed.

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
European Union					
European Merger Control Regulation. Mandatory system. Form of notification: Special form: Form CO. Detailed information on the parties (turnover, business sectors, groups), the merger proposal, the affected markets, competitors and customers. In any of the EU official languages.	Combined worldwide turnover over 5 billion euros and EU-wide turnover of at least two parties over 250 million euros unless each of the parties achieves more than 2/3 of the EU turnover in one and the same State OR combined worldwide turnover over 2.5 billion euros; EU-wide turnover of at least two of the undertakings over 100 million euros each; combined turnover in each of at least three member States over 100 million euros; a turnover in each of those three member States by each of at least two of the undertakings over 25 million euros unless each of the parties achieves more than 2/3 of the EU turnover in one and the same State. Pre-merger filing, within one week of conclusion of agreement or announcement of public bid or acquisition of control (whichever is earliest).	Stage 1: one month from notification or six weeks from notification where the parties have submitted commitments intended to form the basis of a clearance decision. Stage 2: four additional months. Suspension effects: suspension of transaction until final decision with limited exception for public bids.	Whether a merger will create or strengthen a dominant position which will significantly impede competition in the common market or a substantial part of it. In addition, the cooperative aspects of full-function joint ventures are appraised in accordance with the criteria of article 81(1) and (3). Broadly, economic benefits must outweigh detriment to competition.	Failure to file: fines from 1 000 to 50 000 euros Implementation before clearance: fines up to 10 per cent of the combined worldwide turnover of the parties.	Special rules for the calculation of thresholds for banks and insurance companies. Mergers in the coal and steel sectors are subject to the Coal and Steel Treaty (notice on alignment of procedures adopted on 1 March 1998).
Germany					
New legislation in force as of January 1999. Mandatory system. Form of notification: no special form; shorter than Form CO; in German.	Combined worldwide turnover of all parties over DM 1 billion and at least one party with a turnover of at least DM 50 million in Germany (*de minimis* exemptions). Pre-merger notification any time before completion.	Stage 1: one month from notification. Stage 2: three additional months. Suspension effects: prohibition to complete before clearance (possibility of exemption for important reasons).	Whether a merger will create or strengthen a dominant market position (statutory presumptions of dominance) which is not outweighed by an improvement in market conditions.	Failure to notify; incomplete, incorrect or late notification: fines of up to DM 50 000. Completion before clearance: fines of up to DM 1 million or three times additional revenues; transaction invalid. Failure to submit post-completion notice: fines of up to DM 50 000.	Special provisions in the broadcasting sector. Further notification procedures for banks and insurance companies. Post-completion notice without "undue delay" after completion of the merger notified.
India					
Mandatory system.	Companies Act: share acquisitions exceeding 25 per cent; transfer of assets exceeding 10 per cent. Takeover Code: share acquisitions of 10 per cent or more.	Companies Act: shares of foreign companies: 60 days. No other deadlines.	Interest of company or public interest or interest of shareholders.	Failure to implement: Penalties provided.	Special provisions for foreign companies with established business in India.

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
Italy					
Mandatory system. Form of notification: special form. Detailed information similar to Form CO. In Italian.	Combined turnover over lire 710 billion in Italy or turnover of target in Italy over lire 71 billion. Pre-merger filing, any time before completion.	Stage 1: 30 days from notification. Stage 2: 45 additional days (extendable by a further 30 days where insufficient information). No suspension effects. As a general rule, transaction can be implemented after notification.	Whether the merger will create or strengthen a dominant position in the national market in a way that threatens to eliminate or reduce competition to a considerable and lasting extent.	Failure to file: fines up to 1 per cent of parties' turnover in Italy in the year preceding the statement of objections. Implementation before clearance: no penalties.	Special provisions in the electricity and gas, broadcasting and film distribution sectors and for banks and insurance companies.
Japan					
Mandatory system. Form of notification: filing of formal report to the Fair Trade Commission (FTC). Notification must be submitted in Japanese.	Amendments to the law, which became effective on 1 January 1999, have relaxed the requirements for merger and business transfer filings by establishing monetary thresholds. Under these amendments, only mergers and business transfers between a company having total assets of more than ¥ 10 billion and a company having total assets of more than ¥ 1 billion will be subject to a filing requirement.	No company shall consummate a merger or business transfer until after the expiration of a 30-day waiting period, which runs from the date that the FTC formally accepts the merger or business transfer notification, in the absence of any objection from the FTC.	Clearance will be given if the merger's or business transfer's effect does not substantially restrain competition in the relevant market.	Failure to file: maximum fine of ¥ 2 million. Implementation before clearance: maximum fine of ¥ 2 million.	A revenue threshold applies to the acquisition of a new Japanese company.
Mexico					
Mandatory system. Form of notification: short or long form. Questionnaire for long form only. Filing in Spanish.	Normal procedure: about 40 calendar days, may be extended up to 145 in complex cases. Notification before the mergers are effected.	(1) Acquisition of a target worth about US$ 44 million or more; (2) Acquisition of 35 per cent or more of a firm with assets or sales of over US$ 176 million or more. The parties' assets or sales of US$ 176 million, and including the acquisition of assets or shares of stock of or over US$ 18 million. Essentially assets or sales within Mexico.	General: lessening, harming or prevention of competition. Specific: acquisition of market power, displacement of competitors or market foreclosure; facilitating anti-competitive (per se or rule of reason) practices.	Failure to file: fines (up to US$ 300 000) and transaction null and void.	Competition rules govern most specially regulated areas. Special rules for banks and telecommunications.

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
Portugal					
Mandatory ystem.	Combined market share in Portugal greater than 30 per cent or combined turnover in Portugal of over 30 billion escudos. Filing: before the legal transactions putting the concentration into effect are concluded and before the announcement of any public bid relating thereto.	Stage 1: 40 days as of notification (extendable by information request or if false information is notified) or 90 days if the authorities initiate the procedure ex officio. The file is sent to the Minister in charge of trade matters for decision. Stage 2: Within 50 or up to 95 days of notification, depending on a positive or negative assessment of the operation. Suspension until clearance.	Whether the operation creates or reinforces a dominant position in Portugal, or in a substantial part of Portugal, which is liable to prevent, distort or restrict competition. However, the transaction may be authorized if (1) the economic balance of the envisaged merger is positive or (2) the international competitiveness of the participating undertakings is significantly increased.	Failure to file: fines ranging from 100 000 to 100 million escudos. Implementation before clearance: the transaction will not produce any legal effects until clearance is granted.	The Act does not apply to public services concessionaires within the scope of the concession contract. Merger control provisions do not apply to the banking, financial or insurance sectors, which are, nevertheless subject to special provisions of a prudential nature. Among other regulations the Commercial Companies Code, financial and securities legislation, as well as foreign investment rules, may be relevant.
Republic of Korea					
Mandatory system.	Filing required within 30 days from the date of the underlying transactions.	30 days (may be extended by up to 60 days). Suspension effects: there is a 30-day waiting period following notification before the proposed merger/acquisition can be completed (may be shortened or extended).	The substantive test is whether or not a proposed merger/acquisition has an anti-competitive effect upon the market. Market share is an important factor in determining whether there is such an effect.	Failure to file: fines of up to 100 million won. Implementation before clearance: the FTC may file an action for nullification of a merger against companies which are in violation of the suspension period; fines of up to 100 million won.	Special provisions relating to concentrations of *chaebol* (conglomerates) and to financial institutions.

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
South Africa					
Mandatory system. Prescribed forms to be completed but limited detail required.	Notification must be made within seven days after the earlier of: the conclusion of the merger agreement, the public announcement of a proposed merger bid or the acquisition by a party of a controlling interest in another party.	With intermediate mergers the waiting period to obtain a certificate of clearance from the Commission is 30 days, subject to the right of the Commission to extend this period by no longer than 60 days. If no reply is received from the Commission in the prescribed period, approval is deemed to have been obtained. With large mergers the timing may be longer and no time is specified in which the Tribunal must conduct a hearing, save that it must be called within 15 days of being referred by the Commission to the Tribunal.	Whether the merger is likely to have the effect of preventing or lessening competition in a particular market. If so, are there technological, efficiency or other pro-competitive gains which outweigh the anti-competitive effect, and can the merger can be justified on substantial public interest grounds?	An administrative fine of up to 10 per cent of South African turnover in and exports from South Africa may be imposed where parties implement a merger prior to obtaining approval or in breach of conditions set by the authorities. Provision is made for the authorities to order divestiture.	Social and political factors are relevant to the assessment of a proposed merger, in addition to ordinary issues of economic efficiency and consumer welfare. Special rules for foreign investments in banking and broadcasting.
Taiwan Provinces of China					
Mandatory system. Form of notification: special form.	All sizeable combinations of entities in Taiwan Province of China where: (i) the surviving enterprise will acquire a market share reaching 1/3; or (ii) a participating enterprise holds a market share reaching 1/4; or (iii) the sales of a participating enterprise exceed NT$ 5 billion. Filing in advance of implementation.	The FTC must make its decision on clearance within two months after either receipt of an application or, if any amendment or supplement to the application is required, after receipt of such amendment or supplement. Suspension until clearance.	Whether the advantages of a combination to the overall economy of Taiwan outweigh the disadvantages resulting from the detriment to competition.	Failure to file; the FTC may (i) prohibit the combination; (ii) order separation of the combined enterprise; (iii) order disposal of all or part of the assets of the business; (iv) order discharge of personnel from their duties; (v) issue any other necessary order. Failure to file is also subject to an administrative fine of between NT$ 100 000 and 1 million, which may be assessed consecutively. Failure to comply with an FTC order may lead to a compulsory suspension, cessation or dissolution of business.	Special rules for foreign investments in telecom, financial services, etc.

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
United States					
Mandatory system. Each party must submit a filing. Filing fee (paid by acquiring person) is US$ 45 000.	Must satisfy the commerce test, size-of-parties test and size-of-transaction test, and not qualify for an exemption. No filing deadline.	30-day initial waiting period (15 days for all-cash tender offer). Can be extended or shortened by issuance of a Second Request. Stage 2 period ends on the 20th day after compliance by all parties with the Second Request (in the case of a cash tender offer, Stage 2 ends on the 10th day after compliance by the acquiring person with Second Request). Transaction suspended until waiting periods have been observed.	Whether the transaction may substantially reduce competition or tend to create a monopoly.	Failure to file: fine of up US$ 11 000 per day; divestiture can be required. Transaction cannot be implemented prior to clearance. Same penalties apply if transaction is consummated before approval.	Special rules can apply to certain industrial sectors (telecommunications, banking).

2. Countries with mandatory postclosing notification system

Argentina					
Mandatory system.	Mergers and acquisitions of companies with sales in Argentina equal to or in excess of US$ 200 million or worldwide revenues exceeding US$ 2.5 billion are subject to prior approval. Filing: prior to or within a week of execution of the agreement, publication of bid or acquisition of control.	45 days.	Whether the merger or acquisition would create or consolidate a dominant position on the market from which a detriment to the general economic interest might result.	Failure to file subject to a penalty of up to US$ 1 million per day of delay. Penalties for concluding a merger or acquisition in violation of the law may give rise to penalties of between US$ 10 000 and US$ 150 million. The courts could also order the dissolution, winding-up, deconcentration or spin-off of the companies involved.	There is no practical experience of the application of the law which has just been enacted. The implementing regulations to be dictated should clarify some provisions of the law.

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
Japan					
Mandatory system. Form of notification: filing of formal report to the Fair Trade Commission (FTC). Notification must be submitted in Japanese.	Amendments to the law, which became effective on 1 January 1999, have relaxed the requirements for merger and business transfer filings by establishing monetary thresholds. Under these amendments, only mergers and business transfers between a company having total assets of more than ¥ 10 billion and a company having total assets of more than ¥ 1 billion will be subject to a filing requirement.	No company shall consummate a merger or business transfer until after the expiration of a 30-day waiting period, which runs from the date that the FTC formally accepts the merger or business transfer notification, in the absence of any objection from the FTC.	Clearance will be given if the merger's or business transfer's effect does not substantially restrain competition in the relevant market.	Failure to file: maximum fine of ¥ 2 million. Implementation before clearance: maximum fine of ¥ 2 million.	A revenue threshold applies to the acquisition of a new Japanese company.
Spain					
Mandator system. Form of notification: special form. Detailed information similar to Form CO. In Spanish.	Combined turnover in Spain over Ptas 40 billion and at least two parties over Ptas 10 billion each or combined market share in Spain (or in a "defined" market within Spain) of 25 per cent or more. Filing prior to completion and in any case within one month following signing of the agreement.	Stage 1: one month from notification. Stage 2: seven months from notification. Suspension: no suspensory obligation.	Whether the merger will affect the Spanish market, in particular through the creation or strengthening of a dominant position which impedes the maintenance of effective competition.	Failure to file: fines up to Ptas 5 million. Failure to notify after having been requested to file by the authorities: fines up to Ptas 2 million per day of delay. Implementation before clearance: no penalties.	Special provisions in the electricity, banking, telecom and insurance sectors.

3. Countries with voluntary notification system

France					
Voluntary system. Form of notification: no special form. Similar type of information, but less detailed than Form CO. In French.	Combined turnover in France over FF 7 billion and at least two parties have FF 2 billion each in France; or combined market share in France of more than 25 per cent. Filing: before/within three months of completion.	Stage 1: two months from notification. Stage 2: six months from notification. Suspension effects: no suspensory effects.	Whether the merger will create or strengthen a dominant position as a result of which effective competition will be significantly impaired in France.	Failure to file: no penalties. Implementation before clearance: no penalties.	Special rules for press and audio-visual sectors, banks and insurance companies. Foreign investments are generally unrestricted.
New Zealand					
A voluntary system applies for all mergers that would or would be likely to result in dominance acquired or strengthened (guidelines). Form of notification: special form.	Applies to all mergers. Would or would be likely to result in dominance being acquired or strengthened (guidelines). No formal time limit. Consent, if required, must be sought and obtained prior to closure.	No formal timetable applies. Clearance process: 10 business days. Authorization process: 60 business days. May be extended if agreed to by applicants. Suspension effects: closure cannot be effected without approval.	The merger or acquisition must not result, or be likely to result, in the acquiring or strengthening of a dominant position in a market. The Act does permit the above, however, if the detriment to competition is offset by benefit to the public.	No penalties for failure to file and/or implementation before clearance. Contravention of the Act may result in a range of orders and penalties, including injunction, fines up to NZ$ 5 million (US$ 2.25 million), orders as to divestment and management, and damages.	Foreign investment in New Zealand is subject to foreign investment approval requirements (particularly if the acquisition involves land). Mergers and acquisitions may also need to comply with the companies Act, Overseas Investment Act and the Stock Exchange Listing Rules.

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
Norway					
Voluntary system. There are no jurisdictional thresholds. The Competition Authority may intervene in a merger up to six months from the date of the final agreement.	There are no jurisdictional thresholds (but non-binding guidelines). No deadlines for filing.	The Competition Authority may intervene in a merger up to six months from the date of the final agreement (may be extended to one year). A voluntary filing starts an opposition procedure under which the Competition Authority has three months to decide whether or not it will investigate the merger further. If the Authority does not react within the three-month period, the transaction is considered cleared. If it decides to investigate it has six months to decide. Implementation is not suspended during the investigation by the competition Authority.	The substantive test for clearance is whether the transaction will create or strengthen a significant restriction of competition. The substantive test for clearance consists of three stages: (1) Whether the combined market share of the parties exceeds 40 per cent, or the market shares of the three largest market players, including the parties, exceed 60 per cent; (2) Whether the parties as a result of the transaction will be able to exercise market power; (3) Whether the transaction will create efficiency gains that will outweigh the negative effects of the restriction of competition.	There are no fines or other penalties for not notifying a transaction, or for implementing a transaction prior to a clearance from the Competition Authority. Non-compliance with decisions of the Competition Authority is a criminal offence and may lead to fines or imprisonment of up to three years (six years in aggravated circumstances). The Competition Authority may also impose periodic penalty payments, and require the parties to relinquish all gains derived as a result of non-compliance with decisions of the Competition Authority.	Special rules for banking, insurance, shipping, mining, power, media, telecoms, and for agriculture. Mandatory notification requirement under the Acquisition Act 1994.
United Kingdom					
Voluntary system. Form of notification: formal or informal. If formal, OFT's prescribed form. In English.	Worldwide gross assets of target over £70 million or combined market share in UK of 25 per cent created or enhanced. Filing, no formal time limit.	No formal timetable. Stage 1: usually four to seven weeks. Stage 2: usually three to six additional months. Suspension effects: no suspension effects.	Whether the merger will be expected to operate against the public interest.	Failure to file: no penalties. Implementation before clearance: no penalties.	Special provisions for media, water companies and banks.

Countries	Notification trigger/filing deadline	Clearance deadlines (Stage 1/Stage 2)	Substantive test for clearance	Penalties	Remarks
Venezuela					
Voluntary system. Form of notification: special form.	Aggregate amount of sales exceeds the equivalent of US$ 1.8 million. There are no filing deadlines.	Four months. May be extended by a further two months. Suspension effects: none.	Factors to be considered: (1) level of concentration in the relevant market before and after the transaction; (2) barriers to entry for new competitors; (3) availability of substitutable products; (4) possibility of collusion between the remaining suppliers; and (5) efficiencies of the transaction (effective competition, interests of consumers, promotion of cost reduction and development of new technology).	There are no penalties for not filing, or for consummating the transaction before clearance.	Special rules for the calculation of thresholds for banks and insurance companies. Special rules for insurance and telecom sectors. If a transaction is not notified, Procompetencia may open a proceeding to investigate the impact of the transaction on competition in the Venezuelan market within one year following the consummation of the transaction.