Distribution Law Center
DRIVEN BY CONTRAST

contrast

CASE CARD | 4 October 2021

# Ancillary sports merchandise (Nike) (AT.40436)

**Limitation of out-of-territory sales by licensees**

## 1. CASE SUMMARY

### A. Summary of facts

Nike, a US-based designer, developer and seller of athletic footwear, clothing, equipment and accessories, employs non-exclusive licensing and distribution agreements for licensed merchandise products.

The decision relates to products of a varied nature (mugs, bedsheets, stationery, toys, etc.) all of which bear the brands or colors of clubs and federations (of clubs such as FC Barcelona, Manchester United, Juventus, Inter Milan and AS Roma, as well as national federations such as the French Football Federation) (but not the Nike brands). Nike acts as a licensor for the brands of the relevant football clubs and federations. To enable the manufacturing and sale of the licensed merchandise products, Nike grants manufacturing and distribution licenses for the intellectual rights, which it obtains from the clubs. The grant of these manufacturing and licensing rights by Nike is done either directly to the party that distributes them ('licensee') or indirectly through a 'master licensee' who, in exchange for a certain commission, further sublicenses the rights to final licensees. Licensed merchandise products are sold both offline and online throughout the EEA.

Nike implemented a series of practices restricting active and passive cross-border sales of licensed merchandise products both offline and online. Such practices included direct and indirect measures affecting both licensees and master licensees and obligations to pass on such restrictions. Four main types of restrictions are covered by the decision:

1. *Direct* measures restricting out-of-territory sales by licensees, such as

- active and passive sales restrictions that take the form of clauses explicitly prohibiting licensees from supplying their licensed merchandise products outside the territory allocated to them in their agreements (covering both outright prohibitions and a variant whereby Nike's consent was required for any out of territory sale) (§45-46);
- active sales restrictions whereby, on top of prohibition clauses, Nike's employees actively approach licensees to inquire about the reasons why their products were found in other territories (§50);
- online sales restrictions including prohibition clauses similar to the bans imposed on active or passive out of territory sales (§52);

- obligations to refer orders for out-of-territory sales or queries to Nike (§54);
- clauses allowing Nike to claw back royalties and revenues deriving from out-of-territory sales (§57); and
- clauses obliging the licensee to pay double royalties for out-of-territory sales (§58).

2. *Indirect* measures restricting out-of-territory sales by licensees, such as

- Nike's threats to end the agreements for those licensees selling outside their allocated territories (§65-67);
- Nike's policy to limit the number of security labels (holograms) that licensees required in order to guarantee the "official" character of their products which was used beyond their legitimate purpose (e.g. of estimating the number of future royalties) and was instead used as a tool to monitor if licensees were engaging in out-or territory sales (§69-70);
- Nike would sometimes use audits or the threat thereof in order to ensure that licensees would limit their activities to the territories allocated to them (§71-72).

3. Restrictive practices implemented vis-à-vis *master* licensees to compel them to stay within their territories and to enforce restrictions vis-à-vis their sub-licensees on behalf of Nike (§73-83); and

4. Obligations to *pass on* the restrictions regarding out-of-territory sales down the chain of agreements as well as an obligation on licensees to inform its customers about the restrictions (§84-88).

## B. Legal analysis

### B.1 - Framework of analysis – licensing agreements

Prior to analysing Nike's conduct under Article 101 TFEU, the Commission recalls the legal framework for licensing agreements:

- First, the Commission finds that restrictions prohibiting or limiting the cross-border supply of goods included in licensing agreements fall under competition law, irrespective of whether intellectual property rights are exhausted. (§92)
- Second, the Commission refers to case law finding that a misuse of intellectual property rights may amount to an infringement of the competition rules. (§93)

### B.2 - Article 101(1) TFEU – object restrictions

The infringement involves the implementation and enforcement of a series of agreements and practices aimed at restricting active and passive cross-border sales of licensed merchandise, both offline and online. Such conduct

has as its object the restriction of competition within the meaning of Article 101(1) TFEU. The Commission concludes that Nike's practices partitioned the single market and prevented licensees in the EEA from selling products cross-border, to the ultimate detriment of consumers.

The Commission reminds that it is irrelevant whether the restrictive clauses have been enforced. (§106)

The Commission considered that the infringement by Nike was a single and continuous infringement. Also relevant in this context is that the same patterns were applied throughout the EEA, the individuals involved were essentially the same and there was a centralized team at headquarters responsible for managing accounts in the non-domestic territories. (§117)

### B.3 - Article 101(3) TFEU – no block or individual exemption

In view of the hardcore nature of the restrictions neither the Vertical Block Exemption Regulation ('VBER'), nor the Technology Transfer Block Exemption Regulation ('TTBER') apply. Although the agreements of Nike did not fall under the TTBER as they concern the licensing of trade marks and other intellectual property rights and distribution of related products, the Commission found that both the VBER and the TTBER could still provide guidance for the analysis under Article 101(3) TFEU.

This case illustrates that, despite hardcore restrictions in an agreement, an undertaking's conduct can in theory still meet the conditions for Article 101(3) TFEU. The Commission deemed that in this case such individual exemption was not available. The main reasons were that Nike did not advance any arguments in this respect, but also that there were no indications that the indispensability test was met (e.g. to induce retailer investment in the territories or to alleviate repercussions of freeriding). In addition, as Nike had implemented the restrictions throughout its network, this decreased the chances for consumers to have a wider choice and lower prices. (§129-130)

### B.4 - Fines – vertical restraints less harmful

When determining the level of the fine, the Commission noted that vertical agreements are generally less harmful than horizontal ones and therefore the percentage of value of sales to be used in this case was set at 8%.

Nike was fined EUR 12,555,000 for restricting the licensees' ability to sell licensed merchandise cross-border contrary to Article 101(1) TFEU.

## 2. QUOTES

"*The doctrine of regional exhaustion establishes that once products or services bearing a certain intellectual property right have been placed in the EEA by or with the consent of the rightholder, rightholders can no longer*

*use their intellectual property rights to prevent a further distribution of those goods within the Area. EU Courts have a long standing tradition of recognising the exhaustion of trade mark rights. See in this respect Judgment of the Court of 16 July 1998, C-355-96, Silhouette International Schmied v Hartlauer Handelsgesellschaft, EU:C:1998:374. EU Courts have also acknowledged that the distribution right enjoyed by the copyright holder is also exhausted with the first sale in the EEA of the original of a work or copies thereof by the rightholder or with his consent. See in this respect, Judgment of the Court of 3 July 2012, UsedSoft GmbH v Oracle International Corp, C-128/11, EU:C:2012:407.*" (footnote 87 at §92)

"*[…] Moreover, the fact that the clauses are not strictly enforced is irrelevant since the very existence of those clauses may create a "visual and psychological" background contributing to the division of the markets.*" (§106)

"*Even where a restriction by object pursuant to Article 101(1) of the Treaty is established and the Vertical Block Exemption Regulation and the Technology Transfer Block Exemption Regulation are not applicable, there is in principle the possibility of an exemption from the prohibition in Article 101(1) if the parties prove that the agreement fulfils the four conditions for exemption set out in Article 101(3) of the Treaty.*" (§129)

"*Given that the agreements governing Nike's licensed merchandise products govern both the licensing of intellectual property rights and distribution of products using those rights, the Vertical Block Exemption Regulation and the Technology Transfer Block Exemption Regulation could provide guidance on the assessment of the restrictions in this case. However, the hardcore nature of these restrictions means that the exemptions in the Vertical Block Exemption Regulation and in the Technology Transfer Block Exemption Regulation would not apply in this case.*" (§130)

"*Out-of-territory restrictions by their very nature, restrict competition within the meaning of Article 101(1) of the Treaty. However, vertical restraints are generally less harmful than horizontal ones. Taking into account these factors and the EEA-wide impact of the restrictions on out-of-territory sales, the percentage of the value of sales to be used for calculating the fine in this case should therefore be set at 8%.*" (§157)

"*The evidence demonstrates that those practices formed part of an overall business strategy by Nike aimed at controlling the territories in which licensees could sell the products, to the detriment of competition. Those practices also led to a reduction in the choice available to consumers and, potentially, increased prices for certain products as a direct result from the lower level of competition.*" (§117)

"*[…] In view of the effective and timely cooperation provided by the addressees in this case, the basic amount of the fine should be reduced by 40% pursuant to point 37 of the Guidelines on Fines.*" (§165)

# 3. RELEVANT LEGISLATION

- Article 101 TFEU
- Regulation 330/2010
- Regulation 316/2014
- Fining Guidelines, §37

# 4. RELEVANT LITERATURE

On the role of intellectual property rights in the context of vertical agreements, see F. WIJCKMANS and F. TUYTSCHAEVER, *Vertical Agreements in EU Competition Law*, Oxford University Press, 2018, §4.13 – 4.37.

# 5. PRACTICAL SIGNIFICANCE

This is a follow-on decision to the 2017 Commission's e-commerce sector inquiry. This case is relevant for practitioners because it illustrates that:

- restrictions on out-of-territory sales are object restrictions;
- clauses that limit out-of-territory sales, such as outright bans, obligations to obtain the consent of the supplier, obligations to refer orders to the supplier, rights for the supplier to claw back royalties for out-of-territory sales or for the licensee to pay double royalties were all considered direct restrictions;
- the mere existence of contractual clauses containing such restrictions is sufficient to infringe Article 101(1) TFEU, hence the clauses do not have to be enforced;
- perfectly legitimate practices and clauses such as using a security mark to trace products, the right to carry out audits or to terminate agreements for cause become problematic if they are used in practice to monitor and sanction out-of-territory sales;
- even the mere threat of carrying out audits or to terminate can be problematic;
- license agreements are subject to competition law and it is irrelevant for the analysis whether the exhaustion doctrine applies;
- when the VBER and TTBER do not apply due to the inclusion of hardcore restrictions, it is in theory possible to obtain an individual exemption;
- fines for vertical restraints are lower because vertical restraints are considered less harmful than horizontal

restraints.