Quantification of passing-on of overcharges in damages actions

Practical Feasibility

Dr. Hans W. Friederiszick
Director E.CA Economics and Research Fellow ESMT Berlin
Introduction/ disclaimer

• E.CA Economics has been carrying out pass on analyses in many cases over the last 3 to 5 years affecting more than 40 to 50 relevant product markets (without counting geographic markets individually…)

• Many ongoing engagements, both on defendant and claimant side

• Accordingly, my statements may be “biased” by the cases I have been working on and the positions I have taken there
  – Given the diverse positions, biases should cancel out, though…
  – In any case, my comments are formulated here as “open issues/ questions”; answers to be delivered by the courts, I guess
Agenda

Introduction/ disclaimer
General remarks
Specific issues
Illustration of timeline of administrative and damage proceedings

- Dawn raid / press release
- Filing of damage claim
- EC decision
- First settlement

Duration between EC decision and settlement

Duration between filing of claim and first settlement
Speed of settlements accelerated – sign of health!

Source: The authors. Based on 22 observations. Note likely truncation and bias towards later years due to smaller observation period.
General comments – practical issues

• From a claimant’s perspective: Pass on defence represents a significant, weakening factor in its negotiation position
  − Disclosure of information on claimants’ own business
    • Significant effort
    • Information revelation along the vertical chain
  − It reduces/ complicates the incentives for joint action
    • Horizontal vs. vertical

  **Significantly increases the costs of litigation**

• From a defence perspective: Disentangling conditionality between overcharge and pass on a central theme
  − Burden of proof with the defendant
  − Not willing to “accept“ overcharges in early stages of the proceedings

  **In particular, but not only, an issue in information exchange cases**
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Specific issues – economic vs. legal causality, I

• Sainsbury’s vs. MasterCard decision (CAT, 2016, 484-4) highlights the differential between economic and legal concepts:

“We have already noted that whilst the notion of passing-on a cost is a very familiar one to an economist, an economist is concerned with how an enterprise recovers costs, whereas a lawyer is concerned with whether a specific claim is or is not well-founded.

We consider that the legal definition of a passed-on cost differs from that of the economist in two respects:
- First, whereas an economist might well define pass-on more widely (i.e. include cost savings and reduced expenditure), the pass-on defence is only concerned with identifiable increases in prices by a firm to its customers.
- Secondly, the increase in price must be causally connected with the overcharge, and demonstrably so.”
Specific issues – economic vs. legal causality, II

- **Example 1:** A retailer reacts to a cost increase (an overcharge?) by i) requesting from its suppliers an extra rebate, ii) its staff to reduce hourly salary rates, iii) laying off staff or closing shops
  - If you can show under normal empirical standards a causal link: Does it qualify within a pass on defence?

- **Example 2:** In a resource intensive, capacity driven industry, a firm decides either to reduce its overall production capacity by closing a plant due to eroding profitability or not to build a new one. As a consequence the ROCE stays stable despite elevated input costs
  - How to defend against the argument of “margin stability”?

- **Example 3:** A grocery retailer uses some products as a loss leader, other products not; or alternatively, the retailer allocates ex post rebates differently than the supplier to products/ product categories
  - Legal causality given?

- **Example 4:** A branded product manufacturer introduces price increases through “new” products, i.e. prices for existing products are always decreasing
  - You find a limited pass through on product level but significant pass through over the full assortment – legal conclusion?
Specific issues – economic vs. legal causality, III

There is an infinite list of equally (or even more!) relevant issues...

- Currency risks decouple input and output prices, does it break causality?
- One can observe end customer prices, but not the exact prices of the claimant, is this sufficient?
- Most often reoccurring issues:
  - **Small cost: sufficient to show pass on for a larger cost category?**
  - **Industries/ firms in transition/ decline: Sufficient to show limited pass on capabilities?**
- Specific topic: abc cartels, i.e. a mixture of vertical and horizontal issues: What is pass on? What is the overcharge?

Economists, I think, can easily agree on what are convincing methods (and outcomes). The translation of economic relevance into legal causality will evolve only over time...
Thank you!

Dr. Hans W. Friederiszick
Director
friederiszick@e-ca.com
+49 30 212 31 - 7010

E.CA Economics
Berlin Office
Schlossplatz 1
10178 Berlin
Tel.: +49 30 212 31-7009
Fax: +49 30 212 31-7099
info@e-ca.com
www.e-ca.com

Brussels Office
Avenue Louise 222
1050 Brussels
Tel.: +32 2 808-4704
Fax: +32 2 808-4744