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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

**ANNUAL REPORT ON COMPETITION POLICY DEVELOPMENTS IN THE UNITED STATES**

**-- 2008-2009 --**

*This report is submitted by the United States Delegation to the Competition Committee FOR DISCUSSION at its forthcoming meeting to be held on 9-11 June 2009.*

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## **Introduction**

1. This report describes federal antitrust developments in the United States for the period October 1, 2007, through September 30, 2008 (“FY 2008”). It summarizes the activities of both the Antitrust Division (“Division”) of the U.S. Department of Justice (“Department” or “DOJ”) and the Bureaus of Competition and Economics of the Federal Trade Commission (“Commission” or “FTC”).

### **Senior DOJ and FTC staff**

2. In 2009, President Barack Obama appointed Christine A. Varney to be the new Assistant Attorney General, and she was sworn in on April 21, 2009. On April 22, Ms. Varney announced the new leadership team at the Antitrust Division, including Sharis Arnold Pozen as Chief of Staff and Counsel, Molly S. Boast and William F. Cavanaugh, Jr. as DAAGs for Civil Matters, Carl Shapiro as DAAG for Economic Analysis, Philip J. Weiser as DAAG for International, Policy, and Appellate Matters, and Gene I. Kimmelman as Chief Counsel for Competition Policy and Intergovernmental Relations. Throughout the period covered by this report, Thomas O. Barnett was Assistant Attorney General.

3. In March 2009, President Barack Obama designated Commissioner Jon Leibowitz as FTC Chairman. He replaced William E. Kovacic, who had served as Chairman since March 2008. Kovacic replaced Deborah P. Majoras, who was FTC Chairman from 2004 to March 2008.

4. On April 14, 2009, Chairman Leibowitz announced the appointments of Richard Feinstein as Director of the Bureau of Competition; Joseph Farrell as Director of the Bureau of Economics; David Vladeck as Director of the Bureau of Consumer Protection; Susan DeSanti as Director of the Office of Policy Planning; and, Joni Lupovitz as Chief of Staff. Further changes in staff leadership in 2008 included the appointment of Marian Bruno as Deputy Director of the Bureau of Competition and the appointment of David Shonka as Principal Deputy General Counsel replacing John Graubert. With the departure of William Blumenthal, David Shonka was named Acting General Counsel, and with the departure of Nancy Judy, Claudia Bourne Farrell was named Acting Director, Office of Public Affairs.

## **1. Enforcement of antitrust law and policies: actions against anticompetitive practices**

### ***1.1. Staffing and Enforcement Statistics***

#### ***1.1.1. FTC***

5. The FTC’s Bureau of Competition has 361 staff working on competition enforcement, including 226 lawyers and 86 “other” professionals, including investigators, merger analysts, compliance specialists, industry analysts, research analysts, financial analysts/accountants, and paralegals. The Bureau of Economics dedicates 49 economists to work on competition matters. The FTC’s Maintaining Competition Mission expended approximately \$102 million in FY 2008.

6. During FY 2008, the Commission brought 21 merger-related enforcement actions. Commission staff opened 223 initial phase investigations and issued requests for additional information (“second requests”) in 21 transactions. Thirteen consent orders were accepted for comment, and six transactions were abandoned as a result of the Commission’s antitrust concerns. The Commission authorized staff to file one preliminary injunction and two administrative complaints. The FTC brought two civil penalty actions concerning a violation of the pre-merger notification requirements.

7. During FY 2008, the FTC brought four non-merger enforcement actions challenging a variety of anticompetitive conduct, three of which were resolved by consent agreement. The Commission also filed one preliminary injunction.

*1.1.2. DOJ*

8. At the end of FY 2008, the Division employed 782 persons: 345 attorneys, 60 economists, 162 paralegals, and 215 other professional staff. For FY 2008, the Division received an appropriation of \$147.8 million.

9. During FY 2008, the Division opened 208 investigations and filed 73 civil and criminal cases in federal district court. In FY 2008, the Division was party to six antitrust cases decided by the federal courts of appeals.

10. During FY 2008, the Division filed 54 criminal cases in which it charged 25 corporations and 59 individuals. Twelve corporate defendants and 23 individuals were assessed fines totalling \$696.5 million and 19 individuals were sentenced to a total of 14,331 days of incarceration. Another 11 individuals were sentenced to spend a total of 2,045 days in some form of alternative confinement.

11. During FY 2008, 1,656 proposed mergers and acquisitions were reported for review under the HSR Act. In addition, the Division screened a total of 656 bank mergers. The Division further investigated 84 mergers and challenged 15 of them in court. One transaction was restructured or abandoned prior to the filing of a complaint as a result of the Division's announcement that it would otherwise challenge the transaction. The Division opened 119 civil investigations (merger and non-merger), and issued 355 civil investigative demands (a form of compulsory process). The Division filed four non-merger civil complaints. Also during FY 2008, the Division issued three business review letters.

*1.2. Antitrust Cases in the Courts*

*1.2.1. United States Supreme Court*

12. There were no reported FY 2008 decisions in antitrust cases in which the United States was a party or participated as *amicus curiae*.

*1.2.2. U.S. Court of Appeals Cases*

*1.2.2.1. Significant FTC Cases Decided in FY 2008*

13. In the case of *North Texas Speciality Physicians v. FTC*, 528 F.3d 346 (5th Cir. 2008), the U.S. Court of Appeals for the Fifth Circuit upheld a Commission decision that North Texas Speciality Physicians (NTSP), a group of independent competing physicians based in Fort Worth, Texas, had restrained competition among its member physicians. In September 2003, the FTC issued an administrative complaint charging NTSP with unlawfully restraining competition, resulting in increased health care costs for consumers in the Fort Worth area. The Commission charged the group with violating federal law by implementing agreements among its participating physicians on price and other terms, refusing to deal with payors except on collectively agreed-upon terms, and refusing to submit payor offers to participating doctors unless the offers' terms complied with NTSP's minimum-fee standards. The Commission's final decision was announced on December 1, 2005, and subsequently appealed by the defendants to the U.S. Court of Appeals for the Fifth Circuit. Issuing a unanimous opinion in favor of the FTC on May 14, 2008, the Court agreed with the Commission that the anticompetitive effects of NTSP's practices were "obvious." In particular, NTSP was found to have participated in horizontal price-fixing that was not related to any procompetitive efficiencies. The appellate court's decision fully endorsed the

analytical framework applied by the Commission in its decision, which found NTSP's conduct to be "inherently suspect," with "no procompetitive justification." Per remand by the Court, the Commission modified one provision of its remedial order, issuing a Final Order on September 12, 2008. On February 23, 2009, the U.S. Supreme Court denied NTSP's petition for review.

1.2.2.2. Significant DOJ Cases Decided in FY 2008

14. *United States v. Beaver*, 515 F.3d 730 (7th Cir. 2008), involved a price-fixing conspiracy among concrete producers to limit their "net-price" discounts offered to customers. On appeal from the conviction

**1.3. Statistics on Private and Government Cases Filed**

16. According to the 2008 Annual Report of the Director of the Administrative Office of the U.S. Courts, 1,318 new civil antitrust actions, both government and private, were filed in the federal district courts in FY 2008.

**1.4. Significant DOJ and FTC Enforcement Actions**

**1.4.1. DOJ Criminal Enforcement**

17. **Marine Hose:** In FY 2008 the Division continued its prosecution of the worldwide conspiracy to rig bids, fix prices, and allocate market shares of marine hose in the United States and elsewhere. Marine hose is a flexible rubber hose used to transfer oil between tankers and storage facilities. Victims of the conspiracy included firms involved in the off-shore extraction and/or transportation of petroleum products and the U.S. Department of Defense.

On November 6, 2007, two executives of the French firm Trelleborg Industrie S.A.S. agreed to plead guilty to participating in the conspiracy and on December 20, 2007 each was sentenced to serve 14 months in jail.

In December 2007, the Division was able to obtain plea agreements from three British nationals. The 30, 24, and 20-month sentences the defendants agreed to serve were the three longest sentences ever agreed to by foreign nationals for antitrust offenses, and the plea agreements addressed the possible criminal prosecution and imposition of jail sentences upon the defendants in a foreign jurisdiction for a cartel offense. After the three British nationals entered their guilty pleas in U.S. district court in accordance with the terms of the plea agreements, the district court deferred the U.S. sentencing and the defendants were escorted in custody to the United Kingdom, where the Office of Fair Trading charged the three executives with violating the U.K. Enterprise Act. On Nov. 14, 2008, the U.K. Court of Appeal modified the sentences imposed by the U.K. lower court to 30, 24, and 20 months, respectively. (30, i.5( the pri.3( )JT TDd)100.041So9.a0.,(5(v)12

SAS was sentenced to pay a \$52 million criminal fine, Cathay was sentenced to pay a \$60 million criminal fine, Martinair was sentenced to pay a \$42 million criminal fine, and Air France-KLM, which now operates under common ownership by a single holding company, was sentenced to pay a \$350 million criminal fine. Later in 2008, the former highest-ranking cargo executive in the U.S. for SAS Cargo Group A/S (SAS) was sentenced to 6 months in jail after pleading guilty to conspiring to fix the rates charged to U.S. and international customers on air cargo shipments. In January 2008, Qantas Airways Limited pled guilty and was sentenced to pay a \$61 million criminal fine for its role in the conspiracy. Later in 2008, Qantas' former highest-ranking executive employed in the United States pled guilty and was sentenced to serve six months in jail and pay a \$20,000 criminal fine for fixing cargo rates. In May 2008, Japan Airlines pled guilty and was sentenced to pay a \$110 million criminal fine for conspiring to fix rates for international cargo shipments.

19. **E-Rate:** The Division's investigation of collusion and other fraud in connection with the Federal E-Rate program continued in FY 2008. The E-Rate program was created by Congress in 1996 to help economically disadvantaged schools and libraries obtain computer and telecommunications services. The Division helped to uncover massive fraud in this program: at the end of FY 2008, a total of seven companies and 17 individuals have pleaded guilty, have been convicted and found guilty, or entered civil settlements, resulting in more than \$40 million in criminal fines, civil settlements and restitution and jail sentences totalling nearly 29 years. In FY 2008, significant E-Rate prosecutions continued, including: an individual was found guilty after trial of bribery in Georgia and sentenced to five years in prison; a former South Carolina school official was sentenced to serve two years in prison and pay \$468,496 in restitution

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broker's commission if the seller located a buyer on his or her own. The Department also reached a







32. On April 11, 2008, the Department announced it would not challenge proposed changes to procedures for auditing and accrediting audience measurement products by the Media Ratings Council (MRC), an industry association of advertisers, broadcasters, and other members with common interest in measuring the size and demographics of media audiences. The proposal changes existing voluntary procedures by requesting that rating services seeking to replace current audience measurement products voluntarily disclose data, obtain accreditation, and undergo an independent audit before commercialization. The Department said that auditing and accrediting activities by associations of customers do not necessarily raise antitrust issues and with appropriate safeguards in place, can reduce the uncertainty of replacement services and provide valuable information to the marketplace. On July 1, 2008, the Department announced it would not challenge a proposal by External Compliance Officer Inc. (ECO), a New Jersey anti-money laundering consulting company, to collect and divulge information on the termination of money transmitter agents. Money transmitters are companies that provide electronic money transfer services to individuals. The Department said that the proposed database was not likely to reduce competition and could serve to facilitate compliance with prohibitions against money laundering and terrorist financing. On September 17, 2008, the Department announced it would not oppose a proposal by the CEO Roundtable on Cancer (CRC) to develop and publicize model contract language for clinical trials of potential new cancer treatments. CRC is a non-profit organization composed principally of pharmaceutical and biotechnology companies committed to the elimination of cancer as a public-health problem. The Department said the proposed language was not likely to be anticompetitive and could be used to help increase efficiency in contract negotiations, potentially reducing costs and shortening the time needed to begin clinical trials. The Department's business review letters can be found at: <http://www.usdoj.gov/atr/public/busreview/letters.htm>.

## **2. Enforcement of antitrust laws and policies: mergers and concentrations**

### ***2.1. Enforcement of Pre-merger Notification Rules***

33. On October 15, 2007, the DOJ filed a lawsuit and proposed consent decree against Iconix Brand

**2.2. Significant Merger Cases**

**2.2.1. FTC Merger Challenges and Cases**

**34. Whole Foods/Wild Oats: *FTC v. Whole Foods Mkt***

37. **Fresenius SE/Daiichi Sankyo Company, Ltd.:** On September 15, 2008, the Commission challenged Fresenius Medical Care's proposed purchase from Daiichi Sankyo Company of an exclusive sublicense to manufacture and supply Venofer to U.S. dialysis clinics. Venofer is an intravenously administered iron sucrose preparation used primarily to treat iron-deficiency anemia in dialysis patients with chronic kidney disease. The Commission alleged that the agreement would have given Fresenius, the largest operator of dialysis clinics in the country, the ability to artificially inflate its internal costs for

laws. Carlyle owns PQ Corporation (PQ), and the transaction as proposed would have combined PQ – the largest sodium silicate producer and seller in the highly concentrated Midwest region of the United States – with INEOS, its third-largest competitor. To remedy the alleged anticompetitive effects of the transaction, the companies entered into a consent agreement with the Commission that required them to sell PQ's sodium silicate plant and businesses in Utica, Illinois, to an FTC-approved buyer. The order also required the companies to license all of the intellectual property related to sodium silicate product at the Utica plant.

43. **Inova Health System/Prince William Health System:** The Commission successfully blocked Inova Health System's proposed acquisition of Prince William health System, after filing an administrative complaint and an action for a preliminary injunction in the Eastern District of Virginia. The Commission's federal court complaint, filed jointly with the Virginia Attorney General, alleged that the acquisition would have reduced competition for general acute care inpatient hospital services in the Northern Virginia area, leading to higher prices for consumers and reduced incentives for improved services. The Commission charged that the merger, which would have given Inova control of 73 per cent of the licensed hospital beds







Oklahoma, AT&T and Dobson each held one of the two cellular licenses and were the most significant

new agencies, and the FTC co-chairs the ICN's Competition Policy Implementation Working Group's Subgroup on Technical Assistance.

59. As part of its ongoing effort to build effective relationships, the FTC's "International Fellows and Interns" program provided opportunities for staff from counterpart foreign agencies to spend several months at the FTC to work directly with FTC staff on investigations, subject to appropriate confidentiality

innovation, weaken the ability of markets to contain health care costs, impede the efficient performance of health care markets by creating barriers to entry and expansion, and create opportunities for existing competitors to exploit the CON process to thwart or delay new competition, i.e., the laws can facilitate anticompetitive agreements among providers and the CON process itself may be susceptible to corruption.

#### 4.1.2. *FTC Staff Activities: Federal and State Regulatory Matters*

65. On January 29, 2008, the Commission filed an amicus curiae brief in support of appellants and urging reversal in: *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, sub nom. *Arkansas Carpenters Health and Welfare Fund v. Bayer AG*, No 08-1097 (Fed. Cir.). In the brief, the FTC urged the Court of Appeals to reverse the District Court's decision and hold that patent laws do not immunize patent settlements between pharmaceutical firms from antitrust scrutiny. The Commission filed the brief based on "the importance of the issues presented to its mandated mission and the serious risk to consumer welfare posed by anticompetitive settlement agreements" between drug companies.

66. On February 1, 2008, FTC staff gave comments to the Puerto Rico House of Representatives regarding Senate Bill 2190, which sought to permit health care collective bargaining on the part of diverse health care providers or their representatives regarding fees, reimbursement methods, and other matters. FTC staff expressed concern that the bill, if enacted, likely would foster illegal price fixing, and that the potential rise in prices would not be accompanied by any improvements in quality of service.

67. On February 15, 2008, the FTC submitted comments regarding Ohio Executive Order 2007 – 23S entitled "Establishing Collective Bargaining for Home Health Care Workers." The order sought to establish collective bargaining for independent home health care providers (IHCPs), defined as "those providers of ongoing Medicaid reimbursed direct care services that are paid for through a Medicaid waiver program in the State of Ohio and not employed by a private agency." The order stipulated state recognition of "one representative as the exclusive collective bargaining representative for all IHCPs," and that "the State, acting through the Office of the Governor or his designee, shall engage in collective bargaining with the elected representative of IHCPs regarding reimbursement rates, benefits, and other terms." The Commission indicated its belief that the executive order was likely to foster certain anticompetitive conduct such as illegal price fixing, which conduct could harm Ohio home health care consumers.

68. On February 18, 2008, at the request of Governor Sarah Palin and the Alaska Department of Health and Social Services, the Federal Trade Commission submitted written testimony to the Standing Committee on Health, Education, and Social Services of the state's House of Representatives concerning health care competition, Alaska's certificate of need (CON) laws, and House Bill 337 (H.B. 337), which would modify or repeal certain aspects of the state's CON requirements. The FTC's testimony hiSte4(nd(JTJ23.0 c)10.2

[http://www.usdoj.gov/atr/public/real\\_estate/index.htm](http://www.usdoj.gov/atr/public/real_estate/index.htm). Features of the website include maps identifying states with real estate laws that can inhibit competition and a calculator to help consumers tally their potential savings when brokers pursuing new business models compete for their business. New real estate brokerage models have the potential to reduce the estimated median commission paid by home sellers by thousands of dollars; however, a number of states have passed laws making it illegal for wkves (too f)8.8fte( )]TJ0 -1. theiumion hy(y)13.1ped s o b(a)11.3r(r)9.1ihecan savconesersth oifsdnlri( r)9.1()10.4calst missiosrwhen lmi(r uyg)10.9i(n)dn3(how)6.4()10.8cronsumersta thumd owa stai esfrocpurweeayoerstdnroaso brokess to ruh m2-0.2ui

substantial costs on consumers and the market for radiation therapy and may violate the Sherman Act. The DOJ recommended rejection of the standards.

#### **4.2. DOJ and FTC Trade Policy Activities**

75. Both the Division and the FTC are involved in interagency discussions and decision-making with respect to the formulation and implementation of U.S. international trade and investment policy as concerns competition policy. The agencies participate in interagency trade policy discussions chaired by the Office of the U.S. Trade Representative, and provide antitrust and other legal advice to U.S. trade agencies. The Antitrust Division also works with other Justice components (including the Civil, Criminal, and Environment and Natural Resources Divisions) on international trade and investment issues that affect those components or the Department as a whole.

76. Both the FTC and DOJ participate in bilateral and multilateral discussions and projects to improve cooperation in the enforcement of competition laws. The agencies participate in negotiations and working groups related to regional and bilateral trade agreements. The Division and the FTC participate with the Office of the U.S. Trade Representative and other U.S. agencies in competition policy discussions associated with Asia-Pacific Economic Cooperation (APEC), and co-chaired the negotiating team for the competition chapters in the U.S.-Malaysia free trade agreement negotiations that occurred in FY 2008. The agencies are active participants in the annual UNCTAD Intergovernmental Group of Experts meetings on competition topics of interest to developing as well as developed countries.

77. The Division co-chairs (with the Office of the U.S. Trade Representative) and the FTC participated in the Cross-Sectoral Working Group under the U.S.-Japan Regulatory Reform and Competition Policy Initiative. In these discussions, the United States has urged the Japanese government to take a variety of actions to strengthen its enforcement of Japan's antimonopoly law, take effective measures to eliminate bid rigging, make its administrative procedures fair and open, and accelerate an effective program of deregulation to open markets to competition.

#### **5. New studies related to antitrust policy**

78. On September 8, 2008, the DOJ issued a report, *Competition and Monopoly: Single-Firm Conduct Under Section 2 of the Sherman Act*, to inform consumers, businesses, and policymakers about issues relating to single-firm conduct under the antitrust laws. The report examined whether and when specific types of single-firm conduct violate Section 2 of the Sherman Act and discussed the following issues: monopoly power, conduct standards, predatory pricing and bidding, tying, bundled and single-product loyalty discounts, unilateral, unconditional refusals to deal with rivals, exclusive dealing, remedies and international perspectives. The report drew extensively on commentary from a series of joint DOJ and FTC hearings on Section 2, scholarly research, and the jurisprudence of the U.S. Supreme Court and lower courts. The report sought to make progress toward the goal of developing sound, clear, objective, effective and administrable standards for Section 2 analysis.

79. On September 8, 2008, FTC Commissioners Pamela Jones Harbour, Jon Leibowitz, and J. Thomas Rosch jointly issued a statement in response to the DOJ report, *Competition and Monopoly: Single-Firm Conduct Under Section 2 of the Sherman Act*. FTC Chairman William E. Kovacic also issued his own individual statement. Commissioners Harbour, Leibowitz, and Rosch raised concerns that the standards adopted in the Department's report would be more onerous than those imposed under current Section 2 case law, and that not all the views of the various section 2 stakeholders present at the hearing had been accommodated. Chairman Kovacic's statement noted that much of the report incorporated the work of FTC employees who helped draft it, although the conclusions remained DOJ's own. He

also stated that the report would have benefitted from a fuller examination of the history of modern doctrine and policy.

80. FTC staff associated with the joint FTC/DOJ Section 2 hearings prepared a series of working papers covering several topics addressed by the hearings. The working papers are available on the Commission's website, at [www.ftc.gov/os/sectiontwohearings/index.shtm](http://www.ftc.gov/os/sectiontwohearings/index.shtm). One working paper, on the *Enforcement of Section 2 of the Sherman Act, Theory and Practice*, surveys all electronically published Section 2 cases during a seven-and-a-half-year period and discusses the benefits and costs of pursuing clear rules and an analysis of the false positives/false negatives debate. Another paper, entitled *General Standards for Exclusionary Conduct*, evaluates various frameworks that have been proposed for analyzing single-firm conduct. A third paper, *Monopoly Power: Use, Proof, and Relationship to Anticompetitive Effects in Section 2 Cases*, examines the meaning of monopoly power and the challenges posed in defining markets in the Section 2 context, paying particular attention to the "Cellophane Fallacy" and addressing the role of inferences based on competitive effects. Finally, a paper, *Cheap Exclusion: Role and Limits*, addresses the legal and policy issues raised by using Section 2 to challenge deceptive conduct and other similar practices collectively known as "cheap exclusion." The paper summarizes policy considerations

**5.1. *FTC Conferences, Reports, and Economic Working Papers***

**5.1.1. *Commission Conferences and Workshops, and Studies of Antitrust***





## APPENDICES

**Department of Justice:  
Fiscal Year 2008 FTE and Actual Resources by Enforcement Activity**

	FTE	Amount (\$ in thousands)
Criminal Enforcement	379	\$ 75,219
Civil Enforcement	411	\$ 81,488
Total	790	\$156,707

**Federal Trade Commission: Fiscal Year 2008 Competition  
Mission FTE and Dollars by Program by Bureau/Office**

	FTE	Amount (\$ in thousands)
Total Maintain Competition Mission	502.0	101,944.4
<i>Bureau of Competition</i>	271.3	40,805.6
<i>Bureau of Economics</i>	74.0	11,855.2
<i>Regional Offices</i>	22.3	3,416.8
<i>Mission Support</i>	134.4	45,866.8
Premerger Notification	31.9	4,300.5
<i>Bureau of Competition</i>	30.9	4,154.3
<i>Bureau of Economics</i>	0.1	15.0
<i>Regional Offices</i>	0.9	131.2
Merger & Joint Venture Enforcement	170.7	26,856.7
<i>Bureau of Competition</i>	116.1	18,713.4
<i>Bureau of Economics</i>	41.0	6,148.3
<i>Regional Offices</i>	13.6	1,995.0
Merger & Joint Venture Compliance	7.1	954.9
<i>Bureau of Competition</i>	7.1	954.9
<i>Bureau of Economics</i>	-	0.0
<i>Regional Offices</i>	-	0.0

	FTE	Amount (\$ in thousands)
Nonmerger Enforcement	117.1	16,594.2
<i>Bureau of Competition</i>	93.9	13,077.4
<i>Bureau of Economics</i>	16.7	2,522.4
<i>Regional Offices</i>	6.5	994.4