Price Fixing—Proving Injury Under Section 4 of the Clayton Act by Indirect Purchasers Relaxed by Expansion of Exceptions to Illinois Brick

Follow this and additional works at: http://openscholarship.wustl.edu/law_lawreview

Part of the Antitrust and Trade Regulation Commons, and the Litigation Commons

Recommended Citation
Available at: http://openscholarship.wustl.edu/law_lawreview/vol60/iss2/19

This Recent Development is brought to you for free and open access by the Law School at Washington University Open Scholarship. It has been accepted for inclusion in Washington University Law Review by an authorized administrator of Washington University Open Scholarship. For more information, please contact digital@wumail.wustl.edu.
ANTITRUST LAW — PRICE FIXING—PROVING INJURY UNDER SECTION 4 OF THE CLAYTON ACT BY INDIRECT PURCHASERS RELAXED BY EXPANSION OF EXCEPTIONS TO ILLINOIS BRICK. In re Mid-Atlantic Toyota Antitrust Litigation, 516 F. Supp. 1287 (D. Md. 1981). In In re Mid-Atlantic Toyota Antitrust Litigation, 1 automobile purchasers, individually and through state parens patriae actions, 2 sued Mid-Atlantic Toyota Distributors, Inc., Carecraft Industries, Ltd., and various Toyota dealerships for conspiring to fix an artificially high price for polyglycoat finishes in violation of section 1 of the Sherman Act. 3 Plaintiffs also sought treble damages under section 4 of the Clayton Act. 4 Defendants moved to dismiss, claiming that Illinois Brick Co. v.


The parens patriae plaintiffs were Delaware, Maryland, West Virginia, and the District of Columbia. 516 F. Supp. 1287, 1289 n.1 (D. Md. 1981).
3. Id. at 1289. Section 1 of the Sherman Act provides:

   Every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court.

4. Section 4 of the Clayton Act provides:

   Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover three fold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.


Illinois barred plaintiffs, as indirect purchasers, from proving injury under section 4. The district court denied defendants' motion and held: Indirect purchasers may recover treble damages for price-fixing antitrust violations under section 4 of the Clayton Act when difficulties in tracing damages and the risk of duplicative liability are not present.

In Illinois Brick the United States Supreme Court restricted the ability of indirect purchasers to recover treble damages from antitrust violators under section 4 of the Clayton Act. Indirect purchasers of concrete block sued eleven concrete block manufacturers for conspiring

6. An indirect purchaser is a purchaser who is more than one step removed in a chain of distribution from a seller. For example, a consumer who buys from a retailer who, in turn, bought from a manufacturer is an indirect purchaser of the manufacturer.
7. 516 F. Supp. at 1289. See note 18 infra and accompanying text.
8. 516 F. Supp. at 1294-95. See notes 26-36 infra and accompanying text.

Courts use three approaches to limit the scope of § 4. In Illinois Brick the Supreme Court barred a method of proving damages under § 4 by prohibiting indirect purchasers from using the pass-on theory. See note 18 infra and accompanying text. The Supreme Court in Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc., 429 U.S. 477 (1977) limited the type of injury that falls within § 4 to "antitrust injuries." The court held:

[For plaintiffs to recover treble damages on account of § 7 violations, they must prove more than injury causally linked to an illegal presence in the market. Plaintiffs must prove antitrust injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful. The injury should reflect the anticompetitive effect either of the violation or of anticompetitive acts made possible by the violation.

429 U.S. at 489. See generally Note, The Third Circuit's "Functional Analysis": Patrolling the Portals to Treble Damages Actions Brought Under Section 4 of the Clayton Act, 21 B.C.L. Rev. 659, 666-67 (1980). The courts of appeals have limited those who can sue by construing the language, "by reason of," in § 4 to require plaintiffs to prove legal causation or "antitrust standing." See, e.g., Conference of Studio Unions v. Loew's, Inc., 193 F.2d 51, 54 (9th Cir. 1951), cert. denied, 342 U.S. 919 (1952). The circuits, however, have split on the test used to determine antitrust standing. The direct injury test focuses on the relationship between the plaintiff and the defendant, denying standing if the plaintiff is not the person to whom the defendant directed the violation. The target area test focuses on the region of the economy affected by the antitrust violation. Plaintiffs have standing if they are within the target area of the violation—"that area of the economy which is endangered by a breakdown of competitive conditions in a particular industry." Id. at 54-55. For a discussion of the "direct injury" and "target area" tests for antitrust standing, see Berger & Bernstein, An Analytical Framework for Antitrust Standing, 86 YALE L.J. 809 (1977); Note, supra.
to fix prices in violation of section 1 of the Sherman Act. Plaintiffs alleged that intermediate purchasers in the chain of distribution increased their prices to compensate for the defendants' overcharges. Thus, plaintiffs claimed that the pass-on of defendants' overcharges resulted in their injuries. The defendants contended that the Court's holding in Hanover Shoe, Inc. v. United Shoe Machinery Corp., compelled the Court to permit only direct purchasers in a chain of distribution to sue under section 4. In Hanover Shoe, the Court barred defendants from asserting as an affirmative defense that overcharges to direct purchaser plaintiffs were passed on by the plaintiffs to their customers.

The Illinois Brick Court, stressing the need for symmetry with Hanover Shoe's ban on defensive pass-on, precluded indirect purchasers from using the offensive pass-on theory to prove section 4 injuries.

11. The defendants sold concrete blocks to masonry contractors who, in turn, sold them to general contractors. The general contractors incorporated the concrete blocks in masonry structures and sold the structures to the plaintiffs. 431 U.S. at 726-27.

12. "Pass-on" refers "to the process whereby a businessman who has been overcharged adjusts his own price upward to reflect the overcharge." McGuire, The Passing-On Defense and the Right of Remote Purchasers to Recover Treble Damages Under Hanover Shoe, 33 U. Pitt. L. Rev. 177, 181 (1977). Pass-on also refers to the passing on of undercharges up a chain of distribution. See In re Beef Industry Antitrust Litigation, 600 F.2d 1148 (5th Cir. 1979), cert. denied, 449 U.S. 905 (1980). See also note 33 infra.


14. A shoe manufacturer challenged the validity of a shoe machinery manufacturer's "lease-only" policy. Plaintiff claimed injury from the increased costs incurred by defendant's refusal to sell its machinery. As an affirmative defense, the machinery manufacturer argued that plaintiff did not sustain a § 4 injury because any illegal overcharge to plaintiff was passed on by plaintiff to its shoe customers. The Supreme Court, in rejecting the defendant's argument, held that antitrust defendants are barred from using pass-on defenses to escape § 4 liability. The Court offered two reasons for its decision. First, the inherent difficulties in proving pass-on are normally insurmountable. Second, successful use of defensive pass-on would allow antitrust violators to escape liability, because indirect purchasers, such as the shoe customers in Hanover Shoe, would lack a sufficient stake in any recovery to bring suit independently. Id. at 481.

15. But see 431 U.S. 720, 748 (1977) (Brennan, J., dissenting). Justice Brennan argued that the deterrence policy underlying the defensive pass-on prohibition did not mandate a bar on offensive pass-on. A strict bar on offensive pass-on would allow some antitrust violators to escape punishment. Id.

16. In defensive pass-on the defendant alleges, as an affirmative defense, that the direct purchaser plaintiff passed on the overcharge to its customers and, therefore, did not suffer a § 4 injury. E.g., 392 U.S. 481 (1968).


18. 431 U.S. 720 (1977). Although the Court did not bar indirect purchasers from seeking
The court offered two policy justifications for its decision. First, and foremost, tracing an overcharge through a chain of distribution usually presents an insurmountable problem of proof. A variety of factors, both rational and irrational, affect product price determinations. Economic pricing theories thus are incapable of reconstructing complex pricing decisions accurately enough to apportion responsibility for the effects of an overcharge in different levels of modern distribution chains. Second, permitting offensive, but not defensive, pass-on subjects defendants to the risk of duplicative liability. A direct purchaser could recover the full amount of an overcharge under Hanover Shoe, even though an indirect purchaser had already recovered for all or part of the overcharge passed on to it.

The Illinois Brick Court expressly recognized two limited exceptions to its holding: the preexisting cost-plus contract exception, and the

relief under § 4, id. at 728 n.7, the practical effect was the same. The indirect purchasers were unable to prove their injuries without the aid of the pass-on theory and, as a result, were unable to proceed to trial. Id.

The decision creates a paradox, in light of the Supreme Court's recent holding that ultimate consumers have standing to sue under § 4. Reiter v. Sonotone Corp., 442 U.S. 330 (1979). Because ultimate consumers usually are indirect purchasers, the Supreme Court granted a § 4 remedy with one hand, and took it way with the other.

19. 431 U.S. at 731-32, 741-43. One commentator has observed that:

The practical difficulties of employing pass-on theory begin with the realization that few, if any situations arise where an overcharge is completely passed on to indirect purchasers. That portion of the overcharge passed on is determinable, in theory, through the use of economic analysis . . . . Unhappily, it is difficult, if not impossible, to determine with reasonable certainty the facts needed to apply this analysis. Even if concepts like price-elasticity of demand were ascertainable, the element of irrationality in pricing and purchasing would render the analysis suspect.


20. 431 U.S. at 731-32, 741-43. The Court stated: "[I]t is unrealistic to think that elasticity studies introduced by expert witnesses will resolve the pass-on issue. . . . 'Sound laws of economics' can only heighten the awareness of the difficulties and uncertainties involved in determining how the relevant variables would have behaved had there been no overcharge." Id. at 742-43.

21. Id. at 730-31. Although procedural devices such as compulsory joinder would eliminate most if not all potential for duplicative liability, the Court found that such devices would further complicate already complex proceedings. Id. at 740.

22. Id. at 735-36. In a fixed quantity, cost-plus contract the buyer agrees to bear the risk of
ownership or control exception. In both of these situations market forces do not control the effect of the defendant-seller's overcharge on the indirect purchaser; rather, the effect is determined in advance.

Federal courts, subsequent to Illinois Brick, have recognized a third exception. Indirect purchasers can circumvent Illinois Brick by proving a vertical conspiracy involving remote sellers and intermediate purchasers in a chain of distribution. Proof of the conspiracy reclassifies the indirect purchaser as a direct purchaser of the conspiracy, thereby obviating plaintiffs' need for the pass-on theory to establish a section 4 injury.

Gas-a-tron of Arizona v. American Oil Co. was the first case to recognize the vertical conspiracy exception. The Arizona District Court conditioned denial of the defendants' motion for summary judgment on future increases in the seller's cost of production. An overcharge to the seller from an antitrust violator is automatically passed on to the buyer, insulating the seller from injury. The ease with which the overcharge is traced removes the cost-plus contract from the concerns of Illinois Brick. For a comprehensive discussion of the cost-plus contract exception, see Note, A Door in the Illinois Brick Wall—A Functional Equivalent to the Cost-Plus Contract Exception, 33 Vand. L. Rev. 481 (1980).

23. 431 U.S. at 736 n.16. The ownership or control exception exempts indirect purchasers who purchase from direct purchasers that are owned or controlled by antitrust violators. The Court suggested the scope of the exception by citing two cases in which the direct purchaser was either owned or financially controlled by the antitrust violator. Id. See also Royal Printing Co. v. Kimberly-Clark Corp., 621 F.2d 323 (9th Cir. 1980) (financial control requires control over pricing decisions); In re Beef Industry Antitrust Litigation, 600 F.2d 1148 (5th Cir. 1979) (control through "acquisition of stock, or indirectly through various financial arrangements, including credit"), cert. denied, 449 U.S. 905 (1980).

24. See notes 22-23 supra and accompanying text.

25. 431 U.S. at 736.


29. Id. In Gas-a-tron retail sellers of gasoline alleged that two oil refiners had conspired to fix the wholesale price of gasoline in Tucson. The retail sellers purchased their gasoline from independent distributors who, in turn, purchased from the oil refiners. The middlemen distributors were neither named as co-conspirators nor joined as defendants in the complaint. Id.

30. Most of the cases involving the vertical conspiracy exception are resolved at the pre-trial summary judgment stage of litigation.
on an amendment to plaintiffs' complaint that would name the middle-
men-distributors as co-conspirators. The court reasoned that proof of 
the conspiracy would enable the plaintiffs to establish section 4 injury 
without resorting to the pass-on theory. No pass-on theory would be 
necessary if the plaintiffs could prove a direct purchase from a member of 
the price-fixing conspiracy.

The Fifth Circuit Court of Appeals in *In re Beef Antitrust Litigation*
concluded that a plaintiff claiming the vertical conspiracy exception 
must, in addition to naming the co-conspirators in the complaint, join 
the middlemen as defendants. Otherwise, proof of a vertical conspir-
acy would subject remote seller defendants to the risk of duplicative 
liability that the *Illinois Brick* Court found unacceptable. The de-
fendants would be unable, in a separate lawsuit brought by the middle-
men, to use the first suit's vertical conspiracy holding to estop the 
middlemen from successfully asserting in their own lawsuit that there 
was no conspiracy. The Fifth Circuit observed that inconsistent adju-
dications on the existence of a vertical conspiracy would enable both 
indirect purchasers and middlemen to recover for a single overcharge.


32. 1977-2 Trade Cas. (CCH) ¶ 61,789. The court neither considered nor argued that its 

33. 600 F.2d 1148 (5th Cir. 1979), cert. denied, 449 U.S. 905 (1980). In *In re Beef* the fact 
pattern was the reverse of that in *Illinois Brick*. Plaintiffs, cattle ranchers and feeders, alleged that 
retail food chains conspired to fix the wholesale price of beef at artificially low levels. The plain-
tiffs claimed injury from the pass-on of the defendants' undercharges by middlemen slaughter-
houses and meat packers. *Id.* at 1153.

34. *Id.* at 1163. *Accord*, Dart Drug Corp. v. Corning Glass Works, 480 F. Supp. 1091, 1103 
(D. Md. 1979); *In re Coordinated Pretrial Proceedings in Petroleum Products Antitrust Litigation*, 
497 F. Supp. 218, 228 (C.D. Cal. 1980).

35. 600 F.2d at 1163.

36. *Id. But see Technical Learning Collective, Inc. v. Daimler-Benz Aktiengesellschaft*, 
Northrop argued that joinder of the middlemen co-conspirators would not eliminate all risk of 
duplicative liability. He interpreted Perma Life Mufflers, Inc. v. International Parts Corp., 392 
U.S. 134 (1968), to hold that the doctrine of *in pari delicto* was not a defense to an antitrust action. 
Judge Northrop cited *Columbia Nitrogen Corp. v. Royster Corp.*, 451 F.2d 3, 15-16 (4th Cir. 
1971), for the general proposition that antitrust co-conspirators are barred from seeking treble 
damages from each other only when their economic strength is substantially equal. *Technical 
Learning Collective, Inc.*, 1980-81 Trade Cas. (CCH) ¶ 63,612 at 77,252-53.

37. 600 F.2d at 1163.
In In re Mid-Atlantic Toyota Antitrust Litigation, Judge Young, before considering the vertical conspiracy exception, addressed the broader issue of whether the two exceptions expressly mentioned in Illinois Brick were exclusive. The judge reasoned that the Supreme Court premised recognition of the cost-plus contract and control exceptions on the supposition that tracing complexities are avoided when market forces are obviated. He then argued that application of the Illinois Brick rule would be inappropriate if the reasons for the rule, including the risk of duplicative liability, did not exist. Concluding that the Supreme Court only intended the exceptions to serve as guides for determining other exceptions to the rule, Judge Young proposed a standard for recognizing exceptions to Illinois Brick. The Mid-Atlantic Toyota standard permits indirect purchaser lawsuits whenever there are no tracing problems and "only a 'mere possibility' of duplicative liability" exists.

Judge Young next addressed the issue of whether an exception of vertical conspiracies satisfies the requirements of the proposed standard. He concluded that tracing complexities are avoided when the plaintiff purchases directly from a member of the conspiracy. He also concluded that joinder of the co-conspirators as defendants would eliminate all but a "mere possibility" of duplicative liability.

The In re Mid-Atlantic Toyota Antitrust Litigation decision is consis-

39. Id. at 1293. See notes 22-23 supra and accompanying text.
40. 516 F. Supp. at 1293.
42. 516 F. Supp. at 1293.
43. The standard for avoiding duplicative liability is not absolute because under the control exception found in Illinois Brick there always "exists at least the 'mere possibility' that the 'controlled' direct purchaser will eventually bring a price-fixing suit against the supplier." Id. at 1294. See also id. at 1293 (discussing footnote 11 to Illinois Brick).
44. Id. at 1294.
45. Id. at 1294-95.
46. Id. at 1295.
47. Id. at 1295-96. Judge Young disagreed with Judge Northrop's conclusion in Technical Learning Collective, Inc. v. Daimler-Benz Aktiengesellschaft, 1980-81 Trade Cas. (CCH) ¶ 63,612 (D. Md. 1980), that joinder of the middlemen co-conspirators would not eliminate the risk of duplicative liability. Judge Young understood Perma Life Mufflers, Inc. v. International Parts Corp., 392 U.S. 134 (1968), to hold that some aspects of the in pari delicto doctrine should be retained under the antitrust laws. He also interpreted Columbia Nitrogen Corp. v. Royster Co., 451 F.2d 3 (4th Cir. 1971), to hold that any party who voluntarily and equally participates in a
tent with the policy considerations underlying *Illinois Brick*. The standard proposed by Judge Young prevents some of the harsh results of a narrow construction of *Illinois Brick*'s exceptions. Direct purchasers often lack the incentive to sue when they are dependent on the seller for supplies or are able to pass on the overcharge without injury to themselves. In these situations, indirect purchasers are often the only parties interested in challenging an antitrust violation. Prohibiting indirect purchaser lawsuits when tracing complexities are non-existent and the risk of duplicative liability is negligible simply permits antitrust violators to escape liability. Such a result directly contravenes the deterrence and compensation goals underlying section 4 of the Clayton Act.

The *In re Mid-Atlantic Toyota Antitrust Litigation* decision promotes enforcement of the antitrust laws by increasing the potential number and variety of indirect purchaser suits without undermining the policies of *Illinois Brick*.

M.E.

---

48. See notes 40-42 supra and accompanying text.


50. See note 4 supra.

51. A likely first step is the recognition of exceptions for situations that are the functional equivalents of the cost-plus contract, control, and vertical conspiracy exceptions. See generally Note, supra note 22 (arguing for a functional equivalent to the cost-plus contract exception).

52. Lower federal courts never accepted *Illinois Brick* enthusiastically. The creation of such exceptions as vertical conspiracy reflects this sentiment. Courts have also limited *Illinois Brick* to overcharge cases. It does not apply generally to other forms of antitrust monetary injury. See, e.g., *Mid-West Paper Products Co. v. Continental Group, Inc.*, 596 F.2d 573 (3d Cir. 1979) (only applicable to overcharges induced by horizontal price-fixing conspiracy); *Dart Drug Corp. v. Corning Glass Works*, 480 F. Supp. 1091 (D. Md. 1979) (inapplicable to suit based on an alleged agreement not to deal); *Zenith Radio Corp. v. Matsushita Elec. Indus. Co.*, 494 F. Supp. 1246 (E.D. Pa. 1980) (inapplicable to suit against competing manufacturer for lost sales).

Congressional attempts to overturn *Illinois Brick* have been ineffective. See Beane, supra note 4, at 362-64; Wallace, *Another Year of Significant Congressional Objectives*, 48 *Antitrust L.J.* 1519, 1527-29 (1979).