Summary

EU competition policy is focused too narrowly on ensuring cheap prices and short-term economic benefits to consumers, which makes it difficult to implement multi-stakeholder sustainability agreements, especially those involving competitor cooperation. This approach goes counter to the EU Treaties and the European Green Deal, which foresee that all EU policies should contribute to achieving a sustainable future. EU citizens have an interest in and benefit from a fairer economy and a more sustainable planet, and multi-stakeholder cooperation can sometimes be more desirable or effective than legislation in achieving sustainability objectives, especially in cases where taking action outside the EU’s borders is necessary.

The European Commission now has the opportunity to address the need for legal certainty by including a comprehensive analysis of sustainability agreements in the Guidelines on Horizontal Cooperation Agreements. This would facilitate and encourage genuine multi-stakeholder sustainability agreements involving competitors, while making clear that sustainability cannot be invoked as a smokescreen for anti-competitive behaviour.
Does EU Competition policy allow cooperation agreements for sustainability?

In 2018, the European Union (EU) imported over 3 million tonnes of coffee, worth €7.8 billion. Many of us cannot start the day without a cup of coffee. Yet, are EU citizens aware of living income issues that mar coffee production? For example, according to a 2017 study by True Price on coffee farmer household income, 25% of Indian farmers, and about 35-50% of Indonesian and Vietnamese farmers do not earn a living income. Ensuring living incomes for coffee farmers who grow coffee outside the EU borders is incontestably a legitimate policy objective, in line with the UN Sustainable Development Goals. Let us now imagine that the European coffee industry and civil society organisations wanted to collaborate to achieve this objective. Can they, under the current EU competition policy? The answer is, EU competition policy is at best ambiguous on, and at worst discouraging towards such collaborative efforts. In response, the FTAO advocates a clear legal framework in EU competition law regarding multi-stakeholder cooperation agreements for sustainability, and sets out its relevant findings and proposals below.

I. Introduction

The EU’s legal and political framework leaves no doubt that competition policy must play an active role in EU’s efforts to achieve its sustainability objectives. Sustainability and social equity are currently at the forefront of EU’s political agenda. Under the European Green Deal, “[a]ll EU actions and policies should pull together to help the EU achieve a successful and just transition towards a sustainable future” – a reaffirmation of Article 11 of the Treaty on the Functioning of the EU (TFEU) and Article 37 of EU Charter on Fundamental Rights. In general, under the Treaties, the sustainable development of not just Europe but of the earth is an EU objective, and the EU must ensure consistency between its policies and activities taking all of its objectives into account.

As a result, the EU’s competition law enforcement must neither act, nor be perceived as, an unreasonable burden against any multi-stakeholder cooperation that aims to achieve legitimate sustainability goals, such as environmental sustainability and improved social standards, and especially the achievement of living incomes and living wages. On the contrary, it should encourage the cooperative pursuit of legitimate sustainability goals. Furthermore, multi-stakeholder cooperation can effectively complement the EU’s sustainability legislation. However, the current EU competition policy is not clear on the implementation of multi-stakeholder cooperation for sustainability. This lack of clarity, coupled with the narrow interpretation of Article 101(3), is even perceived as an ‘obstacle’ to cooperative sustainability efforts.
II. Why multi-stakeholder cooperation for sustainability?

Why cooperation and not unilateral action?

It will often be difficult for companies to implement sustainability initiatives unilaterally when they might face free-rider problems and/or first-mover disadvantage, since such initiatives usually increase costs. The former problem occurs, for example, when a company unilaterally invests in efforts to introduce detergent refill stations in supermarkets and promote refill stations to consumers, from which other brands might benefit later on without incurring the additional introduction and promotion costs. The latter problem occurs especially when a company commits to stop offering less sustainable but cheaper products. Such a decision might result in a substantial loss of customers especially in markets where consumers are price-sensitive or where there is little scope for product differentiation. Multi-stakeholder cooperation, for example among competing detergent producers and supermarket chains, might resolve these issues. European Commission (Commission) Executive Vice President Vestager also acknowledged that businesses can sometimes respond to consumers’ demands for more sustainable products ‘even better if they get together to agree standards for sustainable products.’ Similarly, the Circular Economy Action Plan aims to facilitate ‘industrial symbiosis by developing an industry-led reporting and certification system’ for circularity in the production processes.

Why cooperation and not legislation?

Many sustainability objectives of the EU can be achieved through legislation. However, legislative action is not always desirable or effective. As indicated by the UK competition authority regarding environmental agreements, ‘agreements between firms may be particularly appealing to policy makers as they may help achieve policy goals without the requirement of government legislation or explicit regulation.’ Similarly, the Circular Economy Action Plan prioritises industrial efforts before regulation in the case of printers and consumables. Furthermore, EU legislation or intervention from EU authorities may not be effective if the EU’s sustainability objectives necessitate taking action outside its borders. As stressed repeatedly by the Commission, sustainability cannot be achieved without global mobilisation and the EU positions itself as the leader on the global sustainability path.
The global dimension of the EU’s sustainability goals requires, for example, that carbon emissions\(^{17}\) and other forms of environmental damage outside the EU by European entities adhere to the EU standards regardless of local regulations. In the same vein, the goal to achieve living incomes and living wages cannot be limited to the borders of the EU, least of all in value chains of which the EU single market is part.\(^{18}\) Outside the EU, due to enforcement hurdles and especially when ILO conventions and other international commitments are not enforced, multi-stakeholder cooperation (which may involve competitors) may be the only or the most effective way to deal with sustainability issues.

**III. Sustainability and Article 101: How EU Competition Policy Became Less Sustainable**

Under Article 101, EU competition policy has become less sustainable in the past two decades, despite sustainability taking centre stage in the meantime. First, the Commission noted in its Modernisation White Paper of 1999 that the purpose of Article 101(3) ‘is to provide a legal framework for the **economic assessment** of restrictive practices’\(^{19}\) (emphasis added), even if the provision itself is not limited to an ‘economic assessment’.\(^{20}\) Simultaneously, the **consumer welfare standard** emerged in EU competition law, which (in practice) focuses on short-term price effects of firm behaviour, even if a literal reading of the term ‘consumer welfare’ goes beyond price.\(^{21}\) The modernisation process coupled with a narrow reading of the consumer welfare standard led in turn to a **narrow reading of Article 101(3)**. Article 101(3) is now called the ‘efficiency defence’\(^{22}\), even though there is no mention of efficiencies in the provision. This narrow reading largely excludes non-economic considerations.\(^{23}\) It also excludes any positive effects that the agreement may have outside of the relevant markets, unless the two markets are related and the beneficiaries of the agreement are essentially the same group of market participants which are harmed by the restriction.\(^{24}\) As a result, environmental benefits, the eradication of child labour, living wage and living income efforts for farmers living below the extreme poverty line, or an increase in the welfare of animals are unlikely to benefit from Article 101(3), especially if the sustainability agreement results in a price increase for the consumers in the EU. Finally, **the section on environmental agreements was removed** from the Guidelines on Horizontal Cooperation Agreements (HGLs) when the HGLs were revised in 2011.\(^{25}\) The...
Is it possible to quantify sustainability in monetary terms? The Dutch cases

In 2013, the Dutch Government concluded the multi-stakeholder Energy Agreement for Sustainable Growth ‘with employers, trade unions, environmental organisations and others’ for ‘energy conservation, boosting energy from renewable sources and job creation.’ According to the government, it was ‘a major step towards a fully sustainable energy supply.’ The closure of coal-fuelled power plants built in the 1980s was also initially part of the agreement. When the Dutch competition authority (ACM) was asked to analyse the closure under Article 101, the authority simply classified the coordinated closure by competitors as an output restriction within the meaning of Article 101(1) TFEU, despite the broader context of the Energy Agreement. The ACM then conducted the exemption analysis under Article 101(3). The authority monetised the environmental benefits based on shadow prices and avoided costs that would have been incurred due to other environmental measures. It then balanced this against the expected price increase in electricity in a cost-benefit analysis. Since the costs largely outweighed the benefits, the plan was taken out of the Energy Agreement.

In 2014, the ACM gave its opinion on another sustainability agreement, this time for animal welfare. Dutch supermarkets, the poultry processing industry, and chicken farmers wanted to switch to the ‘Chicken of Tomorrow’ raised under a set of minimum standards targeted to increase poultry welfare, such as less antibiotics and more space, and additional environmental measures. All sector participants would adhere to these minimum standards; therefore, the less sustainable chickens would no longer be available to consumers. The agreement was found to restrict competition under Article 101(1). Under Article 101(3) the authority conducted a ‘willingness-to-pay’ analysis. Since it found that there would be a € 0.64 negative effect on consumer surplus, the ACM did not give its greenlight to the Chicken of Tomorrow.

The ‘Chicken of Tomorrow’ initiative could have improved the welfare standards for chicken in the Netherlands.
Fairtrade Foundation study in the UK grocery sector

A recent study by the Fairtrade Foundation, incorporating a series of interviews with businesses, retailers and industry experts, including not-for-profit organisations presents evidence that ‘an unclear legal landscape around potential collaboration in relation to low farm-gate prices restricts progress towards working collaboratively to secure living wages and incomes across supply chains’. The report notes that for the interviewees, it is not clear when the Article 101(3) exemption would apply to collaborations for sustainability and that ‘further clarity from competition authorities on how a pre-competitive collaboration on the issue of low farm-gate prices would be assessed under competition law would greatly aid progress.’
resulting competition policy framework is in stark contrast to the necessity for the coherent application of EU policies required by the Treaties, as well as the ‘bold and comprehensive’ approach of the European Green Deal on the incorporation of sustainability goals into all EU policies.  

IV. The Way Forward: Creating Legal Certainty

Multi-stakeholder sustainability can be allowed and encouraged within the scope of EU competition policy. This is not only possible but also necessary under the Treaties and the European Green Deal. However, the current competition regulation and policy framework does not provide enough legal certainty for multi-stakeholder cooperation agreements aimed at achieving legitimate sustainability goals. The lack of legal certainty was also emphasised in submissions to the Commission’s public consultation on horizontal agreements. This does not only concern businesses, but also civil society organisations who may not have the means to ask for competition law experts’ advice on what is permissible. Furthermore, seeing that sustainability cooperation agreements are increasingly reviewed by national competition authorities (eg Germany and Netherlands), a clear EU-wide legal framework is also needed to avoid divergent approaches to Article 101 across Member States.

In the wake of Commission’s publication of the European Green Deal, now is an ideal time to think about how to ensure legal certainty, as the Commission is currently reviewing its horizontal cooperation block exemptions and guidelines and has stated in its Communication on the Farm to Fork Strategy that it ‘envisages clarifying the competition rules for collective initiatives that promote sustainability in supply chains’. Explicitly incorporating multi-stakeholder sustainability agreements involving competitor cooperation into the Guidelines on Horizontal Cooperation Agreements would be a step in the right direction. A separate section on ‘Sustainability Agreements’ should be added to the revised HGLs in the spirit of 2001 HGLs’ section on environmental agreements but going beyond its limited scope. Respondents to the Commission’s public consultation on horizontal

Harvesting coconuts, Savai’i Coconut Farmers Association, Samoa.
agreements also highlighted the need for a separate section in the HGLs on sustainability agreements.32 Furthermore, standardisation agreements for sustainability should also be clearly addressed in the revised HGLs33, either under the section on standardisation agreements or under sustainability agreements.

The new section on ‘Sustainability Agreements’ should set out in particular: (i) the cases where a sustainability agreement is not likely to restrict competition within the meaning of Article 101(1), and (ii) the conditions under which a sustainability agreement that may restrict competition can nonetheless benefit from an exemption under Article 101(3).

For example, the HGLs should clearly address multi-stakeholder agreements involving competitor cooperation aimed to reduce negative externalities, such as water pollution and carbon emissions. These agreements may lead to prices closer to the ‘true price’: As stressed by the European Parliament, the lowest price possible for the consumer may come at the expense of more vulnerable parties across the supply chain34, or the environment.35 If the Commission takes the view that such agreements may be restrictive of competition, the HGLs should then clearly set out the conditions under which they can benefit from an exemption. Similarly, industry-wide voluntary sustainability pledges and commitments exist, and are generally not considered to be problematic under EU competition law. This scenario should nonetheless be addressed in the HGLs, and an exemption route should also be clearly set out for cases where voluntary pledges are not sufficient to achieve the intended sustainability goals and therefore binding agreements might be more effective.

The Article 101(3) analysis of ‘Sustainability Agreements’ should in turn start with the question whether the sustainability benefits of the agreement outweigh the restrictions of competition,36 and take into account that:37 The first condition (‘improving the production or distribution of goods or promoting technical or economic progress’) does not mention ‘efficiency’, nor is it limited to ‘economic progress’. Therefore, it should encompass a wider scope of social benefits, such as environmental quality, enjoyment of human rights, and improvement of social conditions, within and outside the EU. Furthermore, the second condition (‘allowing consumers a fair share of the resulting benefit’) does not limit the ‘consumers’ to the individual purchasers in the relevant market(s).38 Neither does it limit the concept of ‘benefit’ to prices or other quantifiable benefits.39 Indeed, as the European Parliament has stressed, ‘consumers have interests other than low prices alone, including animal welfare, environmental sustainability, rural development and initiatives to reduce antibiotic use and stave off antimicrobial resistance, etc.40
As a result, even agreements that result in a price increase for European consumers should be able to benefit from an exemption if the sustainability benefits, such as living wages for farmers or the eradication of child labour, are clearly substantiated. Overall, the analysis of the first two conditions should not be based on a monetary cost-benefit analysis or other types of economic quantification that render the integration of sustainability into competition law very difficult, if not impossible (see Box I). Needless to say, only genuine sustainability agreements should be permissible. ‘Greenwashing’, as well as smokescreens hiding cartels, are valid concerns for policy makers and they should be weeded out. To that end, the third and fourth conditions (‘indispensability’ and ‘no substantial elimination of competition’) can function as a check against the misuse of Article 101(3) for the sole benefit of the parties, including greenwashing.41

On a final note, the ongoing global COVID 19 crisis has brought into light and even exacerbated the fragilities and power imbalances across global supply chains, such as textiles, flowers and electronics.42 The crisis once again shows that ‘business as usual’ is not an option. In line with the European Parliament’s resolutions, the European Green Deal and the EU’s sustainability goals should remain at the centre of the EU’s political agenda. Going forward, multi-stakeholder cooperation agreements can play an essential role by complementing EU efforts to establish fairer, more sustainable and more resilient global and local supply chains.

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Endnotes

1 https://ec.europa.eu/eurostat/web/products-eurostat-news/-/EDN-20191001-1
4 This and all other examples of multi-stakeholder cooperation discussed in this paper are hypothetical, unless indicated otherwise.
5 The sustainability gap in EU competition law goes beyond Article 101 and multi-stakeholder cooperation. FTAO’s work continues in other areas of EU competition law. FTAO ‘EU Competition Law and Sustainability in Food Systems - Addressing the Broken Links’ (Brussels, February 2019) http://www.responsibleglobalvaluechains.org/images/PDF/FTAO_-_EU_Competition_Law_and_Sustainability_in_Food_Systems_Addressing_the_Broken_Links_2019.pdf
6 The EU is committed to the implementation of the UN’s 2030 Agenda for Sustainable Development, the Sustainable Development Goals (SDGs) and more recently the European Green Deal. Commission Communication on the European Green Deal (COM(2019) 640 final) (European Green Deal) p 19.
7 Article 3 of Treaty on the EU (especially Articles 3(3) and 3(5)) and Article 7 TFEU respectively.
8 All references to Article 101, 101(1) and 101(3) in this paper are to Article 101 TFEU.
9 European Parliament resolution of 31 January 2019 on the Annual Report on Competition Policy (2018/2102(INI)), para 49; Commission, ‘Factual summary of the contributions received during the public consultation on the evaluation of the two block exemption regulations and the guidelines on horizontal cooperation agreements’, p 5; Linklaters, ‘Competition law needs to cooperate: companies want clarity to enable climate change initiatives to be pursued’ (survey results) 28 April 2020.
13 OFT Contribution to the OECD Policy Roundtable on Horizontal Agreements in the Environmental Context 2010, p 98. This is the current regulatory climate in the EU, with efforts to simplify legislation, avoid overregulation and reduce regulatory burdens (eg REFIT).
14 European Green Deal, p 20 (see in particular the ‘Green Deal diplomacy’) and p 22. See also the UNFCCC preamble: ‘States have (…) the responsibility to ensure that activities within their jurisdiction or control do not cause damage to the environment of other States or of areas beyond the limits of national jurisdiction.’
16 See ‘carbon leakage’ in the European Green Deal, p 5.
17 For example, when cocoa is imported to the EU for use in chocolate production. On how competitive pressure to drive down prices may lead suppliers to turn to producers abroad where sustainability regulations are laxer, see Stucke and Ezrachi, Competition Overdose (HarperCollins 2020), Chapter 2.
19 For a detailed analysis of how the application of Article 101(3) has evolved after the modernisation process, see Brook, ‘Struggling with Article 101(3) TFEU: Diverging Approaches of the Commission, EU Courts and Five Competition Authorities’ (2019) 56 CMLR 121–56.
20 Holmes, ‘Climate change, sustainability, and competition law’, JAE (13 April 2020) p 9-12.
22 ibid, paras 32-33.
23 Commission, ‘Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements’ [2011] OJ C 11/1 (HGLs), which explains that environmental agreements can be assessed under the other sections of the HGLs (fn 1). However, aside from standardisation and to a limited extent R&D, sustainability agreements on different issues across supply chains do not necessarily correspond to the types of agreements assessed in the HGLs.
24 European Green Deal, p 3.
European Parliament (n 10), para 49.

Commission (n 10) p 5.

Fairtrade Foundation ‘Competition Policy and Sustainability: A study of industry attitudes towards multi-stakeholder collaboration in the UK grocery sector’ (April 2019), interview with Bart Vollaard, p 16.


The scope of this section was limited to environmental agreements (as opposed to sustainability in general), and it set forth a narrow cost-benefit analysis under Article 101(3). Commission, ‘Guidelines on the applicability of Article 81 of the EC Treaty to horizontal cooperation agreements’ [2001] OJ C 003, Section 7.4.

Commission (n 10) p 8.

HGLs include an example on environmental standards but the revised HGLs should go beyond a mere example and discuss sustainability standards in more detail.

European Parliament (n 10) para 79.


Below discussion has been directly adapted from Holmes (n 21) and Nowag, ‘Environmental Integration in Competition and Free Market Laws (OUP 2016). Under Article 101(3), there is also the possibility of introducing a block exemption regulation for multi-stakeholder sustainability agreements. This option was also put forward in some of the submissions to the Commission’s public consultation on horizontal agreements. (Commission (n 10) p 11).

As opposed to HGLs, para 43. Indeed, the Commission had adopted a broader approach in CECED, indicating that the ‘environmental results for society would adequately allow consumers a fair share of the benefits even if no benefits accrued to individual purchasers of machines.’ ((([(1999) L187/47OJ 2000], para 56)

As confirmed by the Commission in its Article 101(3) Guidelines, which also (theoretically) encompass cases where there is a price increase for the consumers (paras 94, 102-104).

European Parliament (n 10) para 79.

Holmes (n 21) p 28-29.


For a detailed analysis and critique of these cases, see Monti and Mulder (n 11).


ibid.
The Fair Trade Advocacy Office (FTAO) speaks out on behalf of the Fair Trade Movement for Fair Trade and Trade Justice with the aim to improve the livelihoods of marginalised producers and workers in the South. The FTAO is a joint initiative of Fairtrade International, the World Fair Trade Organization and the World Fair Trade Organization-Europe.

The Fair Trade movement shares a vision of a world in which justice, equity and sustainable development are at the heart of trade structures and practices so that everyone, through their work, can maintain a decent and dignified livelihood and develop their full human potential. The movement brings together many actors such as Fair Trade organisations, labelling initiatives, marketing organisations, national Fair Trade networks, Fair Trade support organisations, Fair Trade Towns, academic and education institutions, specialised Fair Trade importers, civil society organisations in both the North and Global South, places of worship, researchers and volunteers. All these mentioned, backed by consumers, are engaged actively in supporting producers and workers, participating in trade, in awareness raising and campaigning for changes to the rules and practice of conventional international trade.