BEST PRACTICES ON SUSTAINABILITY AGREEMENTS

DRAFT FOR PUBLIC CONSULTATION



Competition and Sustainability

Competition is an essential tool for incentivising companies to promote more sustainable products or production processes.

Individual production and consumption decisions can sometimes have negative effects on sustainability, that are not offset by regulation.

In such cases, **collaboration between companies** can be important to foster sustainability.

From a Competition Law perspective, however, agreements between companies that restrict competition are generally prohibited.

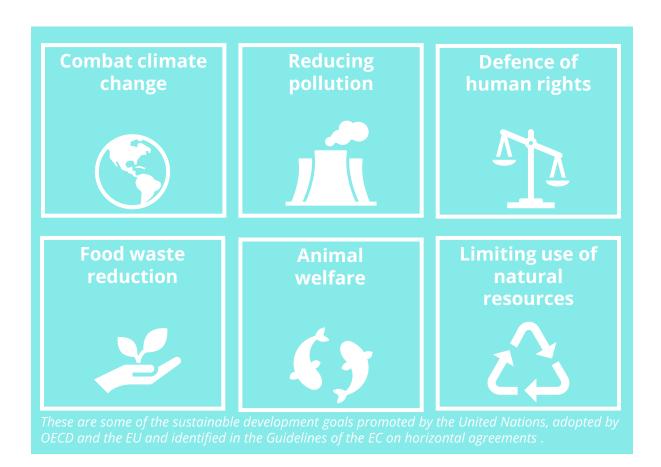
This **Best Practices** is intended to help companies avoid infringing Competition Law when establishing **agreements with sustainability purposes**, as well as providing information on exemptions, safeguards and compatibilities.

SUSTAINABILITY AGREEMENTS BETWEEN COMPETITORS

In this Guide, **«sustainability agreements»** refers to horizontal agreements between actual or potential competitors, decisions by associations of companies and concerted practices with a sustainability objective.

When sustainability agreements negatively affect competition, they must be assessed in accordance with Articles 9 and 10 of the Portuguese Competition Act, and Article 101 (1)(3) of the TFEU (**Competition Law**»).

The concept of sustainability encompasses activities that support **economic**, **environmental and social** development.



WHO IS IT AIMED AT?

Companies and associations of companies wishing to sign sustainability agreements.

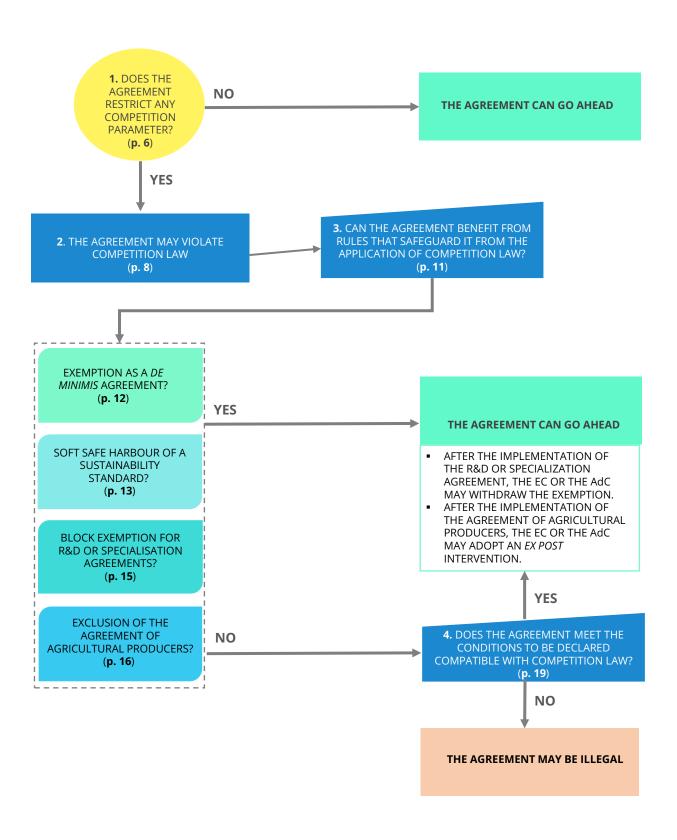
AND WHAT IS ITS OBJECTIVE?

Raise awareness of **best practices** when signing sustainability agreements.

Inform about sustainability agreements **that may not be covered, be exempt or benefit from safeguards**, by Competition Law or even **be declared compatible** with Competition Law.

Alert into the **risks** of anticompetitive agreements.

How to determine if the agreement is compatible with Competition Law?



1

DOES THE AGREEMENT RESTRICT ANY COMPETITION PARAMETER?

There are sustainability agreements that are not covered by Competition Law, so that can go ahead.

But for this to happen, a sustainability agreement **must not negatively affect competition parameters**, such as:

- price,
- quantity,
- quality,
- choice or diversity,
- innovation.

Even if an agreement negatively affects one of these parameters, it can still be exempted or benefit from safeguards or be declared compatible with Competition Law.

EXAMPLES OF AGREEMENTS THAT DO NOT INFRINGE COMPETITION LAW

 Agreement to ensure compliance with requirements or prohibitions in legally binding international treaties, agreements or conventions

For example, an agreement to ensure that child labour is not used.

II. Agreement to influence **internal corporate conduct**, without restricting companies' strategic decisions

For example, an agreement to eliminate single-use plastics from business premises.

III. Agreement to **create a database** on the sustainability of value chains, production processes or supply inputs

For example, an agreement to create a database containing information on suppliers that respect labour rights.

It cannot prohibit or oblige purchases from suppliers, involve the exchange of commercially sensitive information, nor identify current or future suppliers.

IV. Agreement for **awareness-raising campaign** on the environmental impact or other negative externalities of consumption habits

For example, an agreement on a consumer awareness campaign to alert consumers to animal welfare. It must not constitute joint advertising.

Examples based on the EC Guidelines for horizontal co-operation agreements, Chapter 9 - Sustainability agreements.

2

CAN THE AGREEMENT VIOLATE COMPETITION LAW?

When a sustainability agreement affects at least one competition parameter, it is necessary to assess whether:



It shows a **sufficient degree of harm to competition**, for example, if it involves price fixing, allocation of markets or customers, limitation of production or innovation, or exchange of strategic and sensitive information.



There **are pro-competitive effects** that could call into question, with reasonable doubt, this restriction on competition.

In case of **reasonable doubt** as to the degree of harm to competition, it must be assessed whether the agreement leads to significant negative effects on competition. In particular, the following must be considered:

- the market power of the companies;
- whether the agreement limits the companies' autonomy in their strategic decisions;
- the market coverage of the agreement;
- whether commercially sensitive information is exchanged; and
- whether the agreement results in a considerable increase in prices or a significant reduction in output, variety, quality or innovation.



Sustainability agreements **cannot disguise a cartel** by simply referring to a sustainability objective.

AGREEMENT THAT VIOLATES COMPETITION LAW

"AdBlue" Case, European Commission (2021)

The EC has fined 5 car manufacturers for **colluding to prevent the development of technologies to reduce car pollution.**

The companies deliberately chose to avoid competition in the development of technologies to reduce car pollution beyond what was required by the EU.

Between 2009 and 2014, held regular technical meetings, exchanged commercially sensitive information and agreed on the sizes and ranges of AdBlue tanks and on a common understanding of the estimated average consumption of AdBlue in their vehicles.

Companies cannot evade a restriction of competition under the guise of legitimate technical co-operation.

The EC considered that the agreement between these car manufacturers constituted a **restriction of competition**.

Source: European Commission Decision of 08.07.2021, Case ref. AT. 40178 - Emissions from motor vehicles.

AGREEMENT THAT VIOLATES COMPETITION LAW

"FLOOR COVERINGS" CASE, FRANCE (2017)

The French Competition Authority fined 3 companies and one association of companies for various practices restricting competition, including a non-competition agreement concerning communication relating to the environmental performance of their products.

Manufacturers could only report the environmental performance of their products on the basis of the average values adopted at the association level. By refraining from reporting based on individual data, specific to each manufacturer, companies gave up competing on the merits of their respective products.

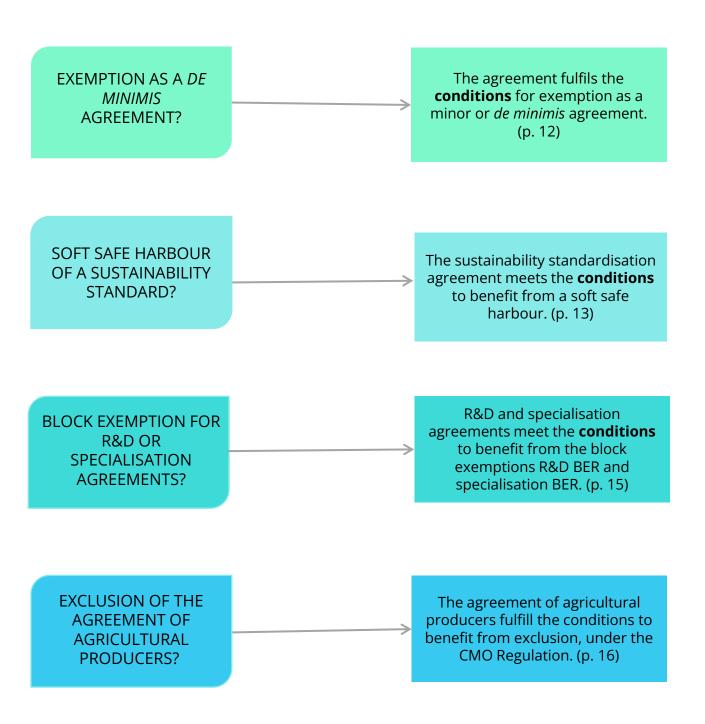
Individual information could have enlightened consumers, especially as there was growing awareness at the time of the impact of air quality on human health, as a result of emissions from PVC floor coverings.

This agreement may have acted as a disincentive to improve technical performance and innovation.

The authority considered that the various practices of this agreement together constituted a restriction of competition.

Source: Decision of *Autorité de la Concurrence*, 18.10.2017, Ref. "*Décision* n.° 17-D-20 - *Relative* à des pratiques mises en œuvre dans le secteur des revêtements de sols résilients".

CAN THE AGREEMENT BENEFIT FROM RULES THAT SAFEGUARD IT FROM THE APPLICATION OF COMPETITION LAW?



WHEN CAN AN AGREEMENT BENEFIT FROM A SAFE HARBOUR AS A DE MINIMIS AGREEMENT?

Agreements of minor importance (or *de minimis*), can benefit from a **safe harbour** if they cumulatively fulfil a number of conditions, including:

- Threshold of the parties' aggregate market share: not exceeding 10% in any of the relevant markets affected by the agreement.
- **Do not have the aim of preventing, restricting or distorting competition**. For example, agreements that do not contain hardcore restrictions, such as price fixing for the sale of products to third parties; limitation of production or sales; or allocation of markets or customers.

WHEN CAN A SUSTAINABILITY STANDARDISATION AGREEMENT BENEFIT FROM A SOFT SAFE HARBOUR?

Competitors can, for example:



Specify the requirements that producers, distributors or retailers must fulfil on sustainability parameters;



Create and use a label, logo, or brand name for products.

To benefit from a soft safe harbour, sustainability standards must fulfil the following cumulative conditions:



Transparent standard-setting process, ensuring that all interested parties can participate.

Non-imposition of compliance obligations on non-members.





Freedom for the parties to apply more demanding standards than the binding ones.

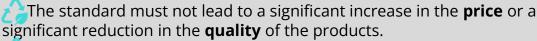
No exchange of strategic and sensitive information, unless it is necessary and proportionate for the standard-setting process.





Effective and non-discriminatory access to the results of the standard-setting process, ensuring that non-members can adopt the standard at a later date.

The standard must fulfil at least one of the 2 conditions:



The combined market share of the parties **must not exceed 20%** in any relevant market affected by the standard.



EXAMPLES OF SUSTAINABILITY STANDARDISATION AGREEMENTSTHAT BENEFIT FROM THE SOFT SAFE HARBOUR

An NGO and fruit traders have set up a label for tropical fruits that come from producers who do not make use of child labour.

These fruit traders remain free to trade fruits under other labels or without labels. Labelled fruit is more expensive but valued by certain consumers. The market shares of labelled fruit traders do not exceed the 20% threshold.

Participation is voluntary and non-exclusive, there is no exchange of sensitive information (e.g. prices, production volumes, margins) and there is no definition of surcharges or binding minimum prices.

The agreement fulfils the soft safe harbour conditions and is unlikely to lead to appreciable negative effects on competition.

Sustainable label

Packaging standard

An NGO and breakfast cereal producers have agreed on a standard to limit excess packaging material to a maximum of 3%. They have made their decision public.

Packaging costs fell by 10%, the wholesale price of cereals fell by 0.5%, and the retail price fell by around 0-0.5%.

The agreement allows everyone to adopt the standard without imposing an obligation to do so and does not involve the exchange of sensitive information.

The agreement does not affect competition between cereal producers on the parameters of price, quality and innovation.

The agreement fulfils the soft safe harbour conditions and is unlikely to lead to appreciable negative effects on competition.

Examples based on the EC Guidelines for horizontal co-operation agreements, Chapter 9 - Sustainability agreements.

WHICH AGREEMENTS CAN BENEFIT FROM A BLOCK EXEMPTION?

Research and development (R&D) and specialisation agreements with a sustainability objective can benefit from the Block Exemption Regulations (BER) **if they meet, among others, the following cumulative conditions**:

01

Market share thresholds:

- Joint R&D agreements or against remuneration, with joint exploitation: combined share ≤ 25%;
- Specialisation agreements, where the products of the specialisation are final products: combined share ≤ 20%;
- Specialisation agreements, where the products of the specialisation are intermediate products: (i) combined share ≤ 20% in the markets of the products of the specialisation; (ii) combined share ≤ 20% in the downstream markets.
- 02

Do not have as their object hardcore restrictions. E.g. price fixing, limitation of production or sales, or allocation of markets or customers. There are exceptions to these restrictions.

03

No elimination of competition following its application. The EC and the AdC have a review mechanism that allows them to withdraw the benefit of the exemption in individual cases.

If none of these or other BER conditions are not met, it will be necessary to assess whether the agreement restricts competition and, if so, whether it can be compatible with Competition Law.

WHEN CAN AGREEMENTS OF AGRICULTURAL PRODUCERS BE EXCLUDED FROM COMPETITION LAW?

Agreements of agricultural producers with a sustainability goal may benefit from an **exclusion** from Competition Law (Article 210a of the CMO Regulation).

To this end, the agreement must respect the following **cumulative conditions**:



Include at least one agricultural producer (e.g. individual or a producer organisation).

Include agricultural products from Annex I of the TFEU and be related to their production or trade.





Contribute to at least one of the following sustainability objectives:

- i. Environmental protection
- **ii. Production of agricultural products** with pesticide reduction and risk management, or reduction of the danger of antimicrobial resistance.
- iii. Animal health and animal welfare.

Applying a higher sustainability standard than that required by EU or national law.





Be indispensable for achieving the sustainability objective (it must not be possible for the parties to achieve it individually).

Do not eliminate competition after its application. The EC and the AdC may decide to modify, terminate or prevent its application in order to avoid eliminating competition.



If any of these conditions are not met, the agreement may still benefit from other standards (block exemption or demonstration of efficiency gains).

WHEN CAN AGREEMENTS OF AGRICULTURAL PRODUCERS BE EXCLUDED FROM COMPETITION LAW?

EXAMPLES

Pear producers and a group of wholesalers have reached an agreement to eliminate the use of chemical treatments, but this results in a greater risk of the pears becoming tainted and therefore greater food waste,

In order to ensure the good condition of pears, wholesalers need to adapt storage conditions.

Sustainability improvements concern both the production and trade of agricultural products.

The agreement may benefit from the exclusion, including changes to wholesalers' storage.

Agreement covered by the exclusion

Agreement not covered by the exclusion

60% of turkey meat producers agree to adopt an animal welfare standard that goes beyond the mandatory legislation.

Producers agree with buyers on a price increase of 150% compared to non-sustainable turkey meat, to cover the additional costs.

Later, other producers adhere to the agreement. Barriers to the import of turkey meat limit the amount of imported nonsustainable turkey meat on the market.

As a result, non-sustainable turkey meat is no longer available and between 45% and 50% of consumers are no longer able to buy any turkey meat.

The agreement does not benefit from exclusion because it may constitute an elimination of competition.

Examples based on the EC Guidelines on the exclusion from Article 101 TFEU for sustainability agreements of agricultural producers pursuant to Article 210a of CMO Regulation.

AN AGREEMENT BETWEEN AGRICULTURAL PRODUCERS THAT VIOLATES COMPETITION LAW

CASE "AGRARDIALOG MILCH" - GERMANY (2022)

The German competition authority analysed an agreement between an association of milk producers and its members to introduce standardised surcharges on the basic price of milk, aimed at covering average production costs and increasing and stabilising prices.

The authority decided that the agreement **did not benefit from the exemption** (Article 210-A of the CMO Regulation), namely because it did not include sustainability standards higher than national or EU legislation.

The authority **concluded that the agreement restricted competition** because it could increase the prices of milk and dairy products for consumers.

It also concluded that the agreement did not lead to efficiency gains and that the economic interest in achieving a higher level of income for milk producers cannot, on its own, justify an exception from competition rules.

Source: Decision by the *Bundeskartellamt*, of 10.01.2022, Ref. Case B2-87/21, "Financing concept for a marke-compliant and fair distribution of risks and burdens associated with agricutural transformation processes for milk producers"

4

When can an agreement restricting Competition be compatible with Competition Law?

A sustainability agreement that restricts competition can be **justified and declared compatible with Competition Law**.

For that purpose, the parties must demonstrate that four **cumulative conditions** are met.

The burden of proof for the fulfilment of the four cumulative conditions lies with the parties to the sustainability agreement.

01	Proven the efficiency gains of the sustainability agreement?
02	Proven the indispensability of the sustainability agreement?
03	Proven the pass-on of the efficiency gains to consumers ?
04	Proven the no elimination of competition ?

AGREEMENTS RESTRICTING COMPETITION CAN BE COMPATIBLE WITH COMPETITION LAW

01

Proven the efficiency gains of the sustainability agreement?

For example, improving the production or distribution of goods or promoting technical progress. These efficiency gains must be substantiated, objective, concrete and verifiable and must outweigh the harm to competition.

02

Proven the indispensability of the sustainability agreement?

The restriction of competition must be indispensable for obtaining the benefits, e.g., overcoming individual investment difficulties.

03

Proven the pass-on of the efficiency gains on consumers?

Affected consumers should receive a fair share of the benefits, such that the overall effect is at least neutral. These benefits can be:

- A. Individual use value benefits
- B. Individual non-use value benefits
- C. Collective benefits for the society in general

Efficiency gains in related markets can only be accepted:

- If the group of consumers affected and the one benefiting from the efficiency gains are substantially the same;
- If they are significant enough to compensate the affected consumers;
 and
- If the share of the collective benefits that accrue to the affected consumers is greater than the harm suffered by those consumers.

Duly discounted future benefits are allowed.

04

Proven the no elimination of competition?

Even if the agreement restricting competition covers the entire sector, competition **must remain in at least one parameter of competition** (price, quantity, quality, variety or innovation).

EXAMPLES OF THE PASS-ON OF DIFFERENT TYPES OF BENEFITS ON CONSUMERS

Vegetables with organic fertilisers can taste better or be healthier than non-organic products. This **increase in quality** can be valued by consumers and compensate for an increase in price.

Individual use value benefits

Individual nonuse value benefits

Consumers may opt for an ecological detergent because it **contaminates water less**, not because it cleans better.

Consumers of more expensive but less polluting fuels are citizens who benefit from **cleaner air**. There is an **overlap between consumers and citizens**. Cleaner air can be a collective benefit if it offsets the detriment to consumers (e.g. higher prices).

Collective benefits that can be accepted

Collective benefits that cannot be accepted

Consumers of more expensive sustainable cotton clothing, but grown with **less fertiliser and water**, do not enjoy these environmental benefits, as they only occur in the area where the cotton is grown. There is **no overlap between the consumers of the garments and the beneficiaries of the environmental gains**.

Examples based on the EC Guidelines for horizontal co-operation agreements, Chapter 9 - Sustainability agreements.

AN EXAMPLE OF A RESTRICTIVE AGREEMENT COMPATIBLE WITH COMPETITION LAW

Almost all manufacturers of washing machines for domestic use have agreed to eliminate from the market, within 2 years, the least efficient machines in classes F to H. These machines account for 35% of sales and have lower costs and prices.

The range of choice available will be smaller and the average price will rise, but it will result in environmental gains in terms of reduced electricity and water consumption.

Studies show that most consumers would recoup the price increase in fewer years than the average life expectancy of machines in classes A to E (via lower water and electricity consumption). Before the agreement, the sector tried to divert demand from classes F to H to classes A to E through advertising campaigns, but without success.

The agreement has negative effects on competition, but it **may be** compatible with Competition Law:

- 1. The average washing machine becomes **more efficient** in terms of energy and water consumption;
- 2. This efficiency **could not be achieved with a less restrictive agreement** (e.g. advertising campaign);
- **3. Consumers obtain a net benefit** (individual use value benefits and collective environmental benefits); and
- **4. Competition is not eliminated**. The agreement affects the classes available, and there is competition on other parameters (e.g. price, innovation).

Examples based on the EC Guidelines for horizontal co-operation agreements, Chapter 9 - Sustainability agreements

AGREEMENT NOT COMPATIBLE WITH COMPETITION LAW

"CHICKEN OF TOMORROW" CASE - NETHERLANDS (2013)

In 2013, producers and retailers in the Netherlands agreed to replace meat from 'broiler chickens' with meat from chickens raised under better animal welfare conditions. They accounted for 95% of the chicken meat sold in the Netherlands.

The Dutch Competition Authority **concluded that the agreement restricted competition** by leading to higher prices and less choice for consumers.

It also concluded that **the agreement did not generate efficiency gains** and did not lead to net benefits for consumers. The value of the willingness to pay for improved animal welfare conditions was lower than the increase in retail prices. The agreement was not indispensable, as it would have been possible to implement alternative measures, e.g. consumer information campaigns on animal welfare.

Source: Decision by the *ACM*, of 26.01.2015, Ref.: ACM/DM/2014/206028, "ACM's analysis of the sustainability arrangements concerning the 'Chicken of Tomorrow'".

WHAT ARE THE IMPLICATIONS OF THE PARTICIPATION OF PUBLIC AUTHORITIES IN THE CONCLUSION OF SUSTAINABILITY AGREEMENTS?

Co-operation between companies and associations of companies with a sustainability objective can be promoted by **public**, **national or local authorities**, with a view to accelerating a sustainable economy.

However, if public authorities:

01

Participate in or are merely aware of the existence of such an agreement: this **does not in itself exclude** the application of Competition Law.

02

Merely **encourage or facilitate** the conclusion of such an agreement, without depriving companies and associations of companies of their autonomy: such an agreement **remains subject** to the application of Competition Law.



Oblige or force the parties to enter into an agreement in breach of Competition Law: they **will not be held liable.**

WHAT SHOULD YOU TAKE INTO ACCOUNT WHEN EXPLORING OR INITIATING A SUSTAINABILITY AGREEMENT?

desired sus	ther the agreement is necessary to achieve the Stainability objectives (can the company or of companies do it alone?).
	Theck whether the agreement negatively affects a competition parameter (e.g., price, quantity, quality, choice or innovation).
	Check whether the agreement involves price fixing, allocation of markets or customers, or limitation of output or innovation.
CHECKLIST	Ensure that exchanges of information do not go beyond what is strictly necessary to pursue the objective of sustainability.
	Estimate the market shares involved in the agreement and the characteristics of the market.
	Assess the possibility of the agreement benefiting from exemptions or other safeguards , as well as its competitive risk.
	uate whether the agreement can generate efficiency gains, efits for consumers and does not fully eliminate competition.
	ne self-assessment exercise of the compatibility of ment with competition law at national and EU level.



The National Strategy for Green Public Procurement 2030 reinforces the inclusion of **ecological criteria** in public purchases of products, services and public works contracts.

In the context of public procurement, including green public procurement, companies can form a joint bidding **consortium** and submit a joint bid in a public procurement procedure.

A consortium between competitors (actual or potential) that **could compete individually** will be, in principle, restrictive to competition.

Such an agreement could be considered lawful under Competition Law if it results in **efficiency gains that outweigh the negative effects**.

Participating jointly does not mean authorisation to carry out a collusive scheme. Such behaviour violates Competition Law at national and EU level.

See Resolutions of the Council of Ministers No. 132/2023 and No. 132/2023 [National Strategy for Green Public Procurement 2030]

WHAT TO CONSIDER WHEN EXPLORING A CONSORTIUM IN A PUBLIC PROCUREMENT PROCEDURE?

alone	s whether your company has the capacity to compete before considering developing a consortium in a public rement procedure.
	Assess whether the parties are strictly necessary to carry out the contract.
HECKLIST	Ensure that exchanges of information do not go beyond what is strictly necessary and that these exchanges only take place after the consortium has been formed.
	If the parties that are part of the consortium are actual or potential competitors, it is important to ensure that the consortium results in efficiency gains for the contracting authority and that the restrictions of competition are offset.
	Ensure that the collaboration within the consortium agreement is limited to the contract you teamed up to carry out .
	the self-assessment exercise of the consortium's ibility with Competition Law at national and EU level.

CONSEQUENCES OF INFRINGING HORIZONTAL AGREEMENTS ON COMPETITION LAW

Sustainability agreements that aim to prevent, distort or restrict competition and have not demonstrated efficiency gains, are null and void and liable to fines.

These **agreements** are liable to be punished with a fine applicable:

- To infringing companies and associations of companies, up to 10% of their turnover.
- To the respective directors and managers, and members of the management and supervisory bodies, respectively, up to 10% of their annual remuneration.

These anticompetitive agreements are also subject to claims under civil liability (under the Private Enforcement Directive).

IF YOU HAVE SUSPICIONS OF ANTICOMPETITIVE AGREEMENTS BETWEEN COMPANIES CONTACT AUTORIDADE DA CONCORRÊNCIA

The complaint can be made **anonymously**.

https://www.concorrencia.pt/en/faq/how-can-i-report-anticompetitive-practices

When detecting a conduct that may harm competition, the AdC investigates and punishes with fines, whenever there is a practice prohibited by Competition Law.

Help the AdC put an end to behaviour that is harmful to competition and sustainable development.

An application for **leniency** (legal framework for granting immunity or reduction of fines) can be made.

https://clemencia.concorrencia.pt/



KEY-DOCUMENTS

National legislation

- Law No. 19/2012, amended by Law No. 17/2022 [Portuguese Competition Act]
- AdC Guidelines on Case Instruction concerning the application of Articles 9 to 12 of the Portuguese Competition Act and of Articles 101 and 102 of the TFEU

European legislation

- Treaty on the Functioning of the European Union [TFEU]
- Commission Regulation (EU) No. 2023/1066 on the application of Article 101(3) of the TFEU to certain categories of research and development agreements [R&D BER]
- Commission Regulation (EU) No. 2023/1067on the application of Article 101(3) of the TFEU to certain categories of specialisation agreements [Specialisation BER]
- Regulation (EU) No. 2021/2117 of the European Parliament and of the Council, amending Regulations (EU) No. 1308/2013 establishing a common organisation of the markets in agricultural products [CMO Regulation]
- Guidelines on the applicability of Article 101 of the TFEU to horizontal co-operation agreements
- Notice on agreements of minor importance which do not appreciably restrict competition under Article 101(1) of the TFEU
- Guidelines on the effect on trade concept contained in Articles 101 and 102 of the Treaty on the TFEU
- Guidelines on the application of Article 101(3) TFEU
- Guidelines on the exclusion from Article 101 of the TFEU for sustainability agreements of agricultural producers (horizontal and verticals) pursuant to Article 210a of Regulation (EU) No. 1308/2013

With **competition**, everybody wins.



Avenida de Berna, nº 19, 1050-037 Lisboa

Tel.: (+351) 21 790 2000

www.concorrencia.pt adC@concorrencia.pt