Cartel Exemptions in Developing Countries: Recent Work from the World Bank Group

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Cartels and horizontal agreements result in a welfare loss for the economy as a whole. These effects are particularly dangerous in the context of economic development where high prices in the basic consumption basket have a relatively greater impact on poor households. Effective cartel enforcement policies should be based upon general prohibitions. However, cartel exemptions are pervasive across antitrust laws and regulations. Yet not all exemptions are created the same way, have similar effects, nor should be analyzed under a single logic. Different rationales distinguish exemptions granted to small and medium enterprises (SMEs) and collective bargaining agreements from those protecting certain industries or sectors based on domestic policy justifications. Thus, when it comes to cartel exemptions, separating the acceptable from the unacceptable does not necessarily amount to separating pro-competitive from anticompetitive agreements.

The nature and nurture of cartel exemptions

Defining what constitutes an exemption to the general prohibition of cartels is a complicated task. The concept of cartel exemptions is closely linked with the development of the very concept of hard-core cartels and the struggle to find an internationally accepted definition for them. Thus, the 1998 OECD “Recommendation Concerning Effective Action against Hard Core Cartels” excludes from the concept of hard-core cartels those “agreements, concerted practices, or arrangements that (i) are reasonably related to the lawful realization of cost-reducing or output-enhancing efficiencies, (ii) are excluded directly or indirectly from the coverage of a Member country’s own laws, or (iii) are authorized in accordance with those laws.” In other words, whatever a government wants to exempt either legally or due to efficiency reasons can be exempted under this logic. However, the OECD Recommendation tones down such an open approach by requesting that “all exclusions and authorizations of what would otherwise be hard core cartels should

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2 See 2005 International Competition Network Report on “Defining Hard Core Cartel Conduct, Effective Institutions, Effective Penalties” at p. 13: “Virtually every jurisdiction has exemptions from anti-cartel laws, either in connection with regulation of an industry or because a legislative choice has been made not to apply antitrust laws to certain conduct or industries.” Available at http://www.internationalcompetitionnetwork.org/uploads/library/doc346.pdf

3 Article 2(a) of the 1998 OECD “Recommendation of the Council concerning Effective Action against Hard Core Cartels” (henceforth, the “OECD Recommendation”) defines hard core cartels as “an anticompetitive agreement, anticompetitive concerted practice, or anticompetitive arrangement by competitors to fix prices, make rigged bids (collusive tenders), establish output restrictions or quotas, or share or divide markets by allocating customers, suppliers, territories, or lines of commerce.” Available at http://www.oecd.org/competition/cartels/2350130.pdf

4 Id. at Article 2(b).
be transparent and should be reviewed periodically to assess whether they are both necessary and no broader than necessary to achieve their overriding policy objectives.”

As stated by UNCTAD, “best practice’ recommends that competition law (antitrust or antimonopoly) should be a general law of general application; That is, the law should apply to all sectors and to all economic agents in an economy engaged in the commercial production and supply of goods and services.” However, the approach of the 1998 OECD Recommendation gives a sense of how pervasive cartel exemptions were at the time and, despite the efforts undertaken after this Recommendation, they still are today. The 2002 UNCTAD Report describes four categories of exemptions according to their distinct economic or policy rationales: (i) exemptions aimed at balancing unequal economic or bargaining power; (ii) exemptions aimed at addressing information, transaction costs and “collective action” problems; (iii) exemptions that reduce risk and uncertainty; and (iv) special sector and interest group demands.

Exemptions can be general or specific. General exemptions provide a legal basis to exclude any sort of agreement, even hard-core cartels, from the application of antitrust prohibitions either because they meet certain efficiency criteria, for instance vertical agreements, and/or because they serve the general public interest. Specific exemptions may benefit (i) certain categories of agreements due to their purpose—such as research and development (R&D) agreements and joint ventures—or due to their size (the so-called de minimis doctrine); (ii) certain economic sectors or industries, and (iii) exceptionally, even individual agreements.

6 Idem.
7 See supra Footnote 3 at p. 2.
8 The recommendation not only compelled the relevant public authorities to “work towards eliminating gaps in coverage of competition law, unless evidence suggests that compelling public interests cannot be served in better ways” (at p. 2) but formally required Member States to provide “annual notice of any new or extended exclusion or category of authorization.” (at p. 3)
9 The OECD (2011) Product Market Regulation database indicates that 30 percent of reporting countries; that is, the 40 OECD member states and enhanced engagement countries and Russia, have rules excluding or exempting from competition law conducts that required or authorized by another government authority. Data available at http://www.oecd.org/economy/growth/indicatorsofproductmarketregulationhomepage.htm
10 See supra at footnote 3, p. 27.
11 We use the term agreement in this article to refer to any sort of meeting of wills including all agreements or arrangements between undertakings, decisions by associations of undertakings and concerted practices.
12 See generally the Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1) of the Treaty establishing the European Community (de minimis)(1) (2001/C 368/07). The de minimis Notice exempts from Article 101(1) of the TFEU scrutiny horizontal agreements in the following cases: “(a) if the aggregate market share held by the parties to the agreement does not exceed 10 % on any of the relevant markets affected by the agreement, where the agreement is made between undertakings which are actual or potential competitors on any of these markets (agreements between competitors); or (b) if the market share held by each of the parties to the agreement does not exceed 15 % on any of the relevant markets affected by the agreement, where the agreement is made between undertakings which are not actual or potential competitors on any of these markets (agreements between non-competitors).” Available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:5:2001XC1222(03):EN:HTML.
The European Union offers a good example of a general exemption justified on efficiency grounds. Article 101 of the Treaty of the Functioning of the EU (TFEU) prohibits agreements having either the “object” or the “effect” of restricting competition. As opposed to restrictions by “effect,” restrictions by “object” imply that the mere existence of the practice in question substantiates in and by itself a competitive harm without a need to inquire about its market effects. These correspond to the concept of hard-core cartels described by the OECD Recommendation. However, such categorization of practices is somehow softened by the generally available possibility to justify any kind of agreement, even hard-core cartels, within the framework of Article 101(3).

Article 101(3) of the TFEU requires the agreement to meet four cumulative conditions: two positive and two negative. To be exempted, agreements should:

1. Contribute to improving the production or distribution of goods or to promoting technical or economic progress.
2. Allow consumers a fair share of the resulting benefit.

They should not:

1. Impose restrictions that are not indispensable to the attainment of the above-mentioned objectives.
2. Afford the possibility of eliminating competition in a substantial part of the products in question.

In addition to efficiency grounds, other countries have opted to spell out a number of exemptions targeting public policy considerations. In this sense, the exemptions included

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13 Text of Article 101(1) of the TFEU: “The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:
(a) directly or indirectly fix purchase or selling prices or any other trading conditions;
(b) limit or control production, markets, technical development, or investment;
(c) share markets or sources of supply;
(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.”


15 Case T-17/93, Matra Hachette SA v Commission of the European Communities. [1994] ECR II-00595 at para 85: “no anti-competitive practice can exist which, whatever the extent of its effects on a given market, cannot be exempted, provided that all the conditions laid down in Article 85(3) of the Treaty are satisfied and the practice in question has been properly notified to the Commission.”

in the South African Competition Act embody some of the concerns common to a number of national and regional competition laws:

1. **Maintenance or promotion of export.**
2. **Promotion of the ability of small businesses or firms controlled or owned by historically disadvantaged persons to become competitive.**
3. **Change in productive capacity necessary to stop decline in an industry.**
4. **The economic stability of any industry designated by the Minister of Trade and Industry, after consulting the Minister responsible for that industry.**

Other exemptions relatively common include collective bargaining agreements and intellectual property rights.

The European model reflects the tension between the objectives of competition policy and those of other public policies due to the wider mandate of the European Commission. Thus, rather than general grounds for public policy exemptions, the EU has opted for tempering Article 101.3 of the TFEU with a number of specific exemptions.

On the one hand, in order to operationalize this provision at a time when exemptions had to be granted on an individual basis, the European Commission decided to offer general exemptions to certain categories of agreements expected to fulfill all four welfare enhancing requirements. These Block Exemption Regulations address vertical

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17 See Article 10.3(b) of the Competition Act of South Africa, 1998 (Act No. 89, 1998). For the exemption on efficiency grounds see Article 4.1(a) which allows cartel agreement otherwise prohibited if the parties “can prove that any technological, efficiency or other pro-competitive gain resulting from it outweighs that effect.” Available at [http://www.saflii.org/za/legis/num_act/ca1998149.pdf](http://www.saflii.org/za/legis/num_act/ca1998149.pdf)
18 See supra at footnote 16.
19 For a quick summary of the powers of the European Commission, see the Europa webpage of the European Union *EU at a glance—Europe in 12 lessons:* “As the EU's executive arm, the Commission implements the decisions taken by the Council in areas such as the common agricultural policy. It has wide powers to manage the EU's common policies, such as research and technology, overseas aid, regional development, etc. It also manages the budget for these policies. The Commission is assisted by a civil service made up of 46 directorates-general (DGs) and services, which are mainly based in Brussels and Luxembourg.” One of these Directorates is DG Competition. Available at [http://europa.eu/abc/12lessons/lesson_4/](http://europa.eu/abc/12lessons/lesson_4/)
agreements, certain types of horizontal agreements (such as R&D and specialization agreements), and licensing agreements for the transfer of technology.

On the other hand, sector-specific rules have been enacted to protect agreements taking place within sensitive sectors either for the economic stability of the EU as a whole or one or more of its member states. These affect agribusiness, the automobile industry, insurance, transport and telecommunications.

While allowing exemptions to be granted on efficiency grounds is a common practice for a number of jurisdictions, it may raise some problems of implementation. First, offering the legal basis to exempt any sort of cartel opens the door to discretionary decisions. Second, it undermines legal certainty for the parties of almost any agreement susceptible of being prohibited by the Competition Law. Thus, addressing these problems constitutes a crucial step both to ensure an effective enforcement of cartel policy and to achieve the very goal of any efficiency-based exemption.

**Dealing with cartel exemptions in developing countries**

Correctly defining and implementing cartel exemption provisions constitutes a key element in the design and consolidation of effective competition policy frameworks in developing countries. The Investment Climate Department of the World Bank Group has adopted a pragmatic approach to help ensure that these provisions are well functioning; it recognizes cartel exemptions may exist and tries to minimize any resulting anticompetitive impact.

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25 For a summary of the existing exemptions on these sectors, see Europa webpage at [http://ec.europa.eu/competition/antitrust/competition/competition.html](http://ec.europa.eu/competition/antitrust/competition/competition.html)

26 See supra footnote 3 at pp. 11 et seq.

The World Bank Group team works with clients to: (i) provide technical advice on legal and regulatory changes to enhance transparency, legal certainty as well as accountability of decisions, and (ii) design effective regulatory frameworks to implement cartel exemptions in a pro-competitive manner.

Two recent examples of the World Bank Group work in Tunisia and Kenya help illustrate this approach.

In Tunisia, the 2011 “Arab Spring” opened the door not only for political reform but also for enhanced economic integration with the EU within its European Neighborhood Policy.\(^{28}\) Within this context, the project aimed to identify the necessary reforms to implement the enhanced economic integration promoted by the European Neighborhood Policy in order to improve Tunisia’s competitiveness, accelerate growth and facilitate job creation.\(^{29}\)

The review of the competition regulatory framework in Tunisia stressed the existence of broad cartel exemptions as a key concern to ensure the effectiveness of competition policy in the country.

Along the lines of the EU, the Tunisian model proposes ample grounds to grant an exemption to cartel agreements. Article 6 of the law exempts from antitrust prohibition agreements (i) promoting technical or economic progress and (ii) allowing consumers a fair share of the resulting benefit.

However, unlike Article 101(3) of the TFEU, it does not exclude agreements containing ancillary restrictions or those susceptible to eliminating competition in a substantial part of the products in question. Additionally, these exemptions are to be granted at the ministerial level after receiving an opinion from the Competition Council of Tunisia.\(^{30}\)

While this provision was initially conceived to grant exemptions to vertical restraints and other agreements normally benefiting from Block Exemptions in the EU as reported by the Tunisian authorities, the wording of Article 6 allows for significant market distortions. First, no additional guidelines or criteria on the implementation of this provision have been approved, thus leaving quite a wide and open margin on which agreements may benefit from it; this creates a problem in relation to legal certainty. Second, it allows authorities a great deal of discretion, in particular given that decisions are taken at the political rather than the technical level. This creates a problem of accountability. Third, it represents an

\(^{28}\) “Through its European Neighborhood Policy (ENP), the EU works with its southern and eastern neighbors to achieve the closest possible political association and the greatest possible degree of economic integration.” There are currently 12 participants in the ENP: Algeria, Armenia, Azerbaijan, Belarus, the Arab Republic of Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, West Bank and Gaza, the Syrian Arab Republic, Tunisia and Ukraine. For additional information on the ENP of the EU, see EUROPA webpage. Available at \texttt{http://eeas.europa.eu/enp/index.en.htm}

\(^{29}\) See generally the report “Advancing Tunisia’s global integration Reforms options in the context of deeper integration with the EU” Investment Climate Department, The World Bank Group (July, 2012).

\(^{30}\) Article 6 of the Tunisian Law 91-64, July 29th 1991, relating to competition and prices. Available in French at \texttt{http://www.jurisitetunisie.com/tunisie/codes/concurrence/menu+.html}
imperfect transplant of the European model. Absent the negative conditions of Article 101(3), exemptions can be granted both to agreements involving ancillary restrictions or ability to foreclose the market. And Block Exemptions require a regulation approved ex ante on the basis of an “Impact Assessment Report” appraising the potential benefits and costs of various policy options for specific sectors. Ultimately, Article 6 provides an ex post and ad hoc tool to exempt specific agreements that would otherwise be considered illegal. This creates a technical problem.

In spite of all of the above, the last years have seen a decrease in the number of exemption requests submitted to Tunisia’s Competition Directorate, reportedly due to the fact that the private sector is not very familiar with this mechanism. The policy recommendations of the World Bank Group team included: (a) the need to amend Article 6 in order to narrow down its scope of application by introducing the indispensability of the restrictions and the control mechanism that no elimination of competition would occur, and (b) the possible adoption of ex ante Block Exemption Regulations to align Tunisia’s practice to that of the EU’s and other regional benchmark countries such as Egypt and Saudi Arabia.

In Kenya, the project specifically targeted cartel exemptions and the challenge of designing a regulatory framework capable of ensuring the effectiveness and transparency of the generous powers granted to the Kenya Competition Authority in this field.

The Kenya Competition Act prohibits restrictive agreements (Section 21) as well as specific anticompetitive agreements and practices by trade associations (Section 22). Following the EU model, Section 21 of the Act prohibits anticompetitive agreements having either the “object” or the “effect” of preventing, distorting, or lessening competition. But unlike the EU model, it does not offer the possibility to grant an exemption whenever certain pre-determined efficiency criteria are met. Instead, along the lines of the South African Competition Act, Section 26 allows agreements prohibited under Sections 21 and 22 to be exempted due to “exceptional and compelling reasons of public policy.” In order to make that decision, the Competition Authority shall take into account whether these agreements contribute to:

1. **Maintaining or promoting exports.**
2. **Improving, or preventing decline in the production or distribution of goods or the provision of services.**
3. **Promoting technical or economic progress or stability in any industry.**
4. **Obtaining a benefit for the public which outweighs or would outweigh the lessening in competition that would result, or would be likely to result, from the agreement, decision or concerted practice or the category of agreements, decisions or concerted practices.**

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31 See supra footnote 29 at p. 55.
32 *Idem*.
Moreover, agreements relating to the exercise of intellectual property rights (Section 28) as well as anticompetitive rules and practices of professional associations reasonably required to maintain professional standards or the ordinary function of the profession (Section 29) may also receive an exemption from the Competition Authority, but only on a case-by-case basis.

Such ample powers represent a common feature of a number of African competition authorities and tend to affect some sectors particularly relevant for economic development. Thus, modulating their effects through a transparent and predictable legal framework is a key objective for the World Bank Group projects in this area. In Kenya, this goal led to the drafting and approval of the 2012 Exemption Guidelines for Horizontal Practices (henceforth, the Exemption Guidelines).34

The Exemption Guidelines constitute a detailed instrument composed of five sections: As an introduction, Section 1 describes the purpose of the Guidelines, the different types of agreements according to the Competition Act, as well as procedural issues concerning the application and granting of exemptions. Section 2 deals with the operation of the Exemptions based on “exceptional and compelling public policy reasons.” This includes considerations related to the objectives established by the Competition Act, namely, maintaining or promoting exports, improving production or distribution of goods or services, technical or economic progress or stability in the market, as well as those agreements whose benefits to the public outweigh the lessening of competition. Section 3 illustrates examples of agreements with anticompetitive effects and describes how they would be analyzed by the Kenya Competition Authority. These agreements include pricing recommendations, information sharing/price sharing, advertising, joint purchasing and selling, technical standards, standard terms and conditions, industry certifications and R&D agreements. Section 4 refers to agreements developed by professional associations and how they differ from agreements and concerted practices in the context of trade associations. Finally, Section 5 deals with exemptions related to intellectual property rights.

These guidelines were conceived as a model for the application of cartel exemptions in a regulatory context offering ample powers to the competition authority, thus requiring clear and extensive guidance on their implementation.35 As such, they aim to offer guidance both to the business community and the general public concerning their rights as well as to the Kenya Competition Authority on the fulfillment of its mandate to protect competition.36 In this sense, several elements of this instrument deserve special attention.

34 The Guidelines were published by the Kenya Competition Authority and are available at its official webpage http://www.cak.go.ke/index.php?option=com_jdownloads&Itemid=95&view=finish&cid=1043&catid=104
35 See Section 1.4 of the Exemption Guidelines: “Agreements, decisions or concerted practices, which have as their object restrictions which prevent, distort or lessen competition are void and have no legal force or effect and shall not be exempted.”
36 Section 1.3, Exemption Guidelines for Horizontal Practices.
First, the Guidelines adopt a clear position in relation to the prohibition of hard core cartels. Along the lines of the 1998 OECD Recommendation, the Guidelines exclude restrictions “by object” from the benefit of an exemption. While this approach constitutes a separation from the EU model, it offers a strong commitment to effective antitrust enforcement and legal certainty.

Second, they narrow down the scope of application of Section 26 of the Competition Act by offering an objective definition of “exceptional and compelling reasons of public policy.” Section 2.1 of the Guidelines describes these reasons as “demonstrable positive economic outcomes for consumers and the public that cannot be achieved by less restrictive means in the absence of an exemption from the restrictive practice,” additionally requiring a “direct link between the benefits to consumers and the public and the agreement, decision or concerted practice permitted by the exemption.”

Third, the Guidelines qualify the efficiency-based grounds to obtain an exemption by requesting parties seeking an exemption to be able to both (i) demonstrate and (ii) quantify the benefits resulting from the agreement in question in order to assess whether “the overall benefits of the restriction outweigh the anticompetitive effects resulting from the lessening of competition.” Moreover, this provision specifically states a number of objective criteria to be used when evaluating these claims. These are “the nature and scope of the benefit to the public; how the public benefit is directly linked to the restriction; whether the public has been disadvantaged by and complained about matters that are the subject of the agreement; whether the exemption concerns a legitimate problem in the industry that is directly connected to consumer or public welfare; evidence that quantifies the benefits to the public and demonstrates the extent to which they outweigh lessening of competition; and evidence that demonstrates that the public and consumer welfare benefits cannot be achieved by the activities of individual undertakings.”

Fourth, the Guidelines offer a comprehensive framework to assess agreements and practices of professional associations. This includes differentiating professional associations, whether formally or informally constituted, from trade associations and industry lobbies: “whereas professional associations frequently serve to protect consumers from poor service delivery, cooperation in the context of trade associations is treated less generously because it may be used as a mechanism for collusion. Therefore, agreements and concerted practices in the context of trade associations are subject to greater scrutiny.” It also includes making the members themselves, and not the association, directly responsible for their formal decisions or informal but well-established practices.

37 See Section 2.17 of the Exemption Guidelines.
38 See Section 2.18 of the Exemption Guidelines.
39 See Section 1.11 and 1.12 of the Exemption Guidelines.
40 See Section 4.2 of the Exemption Guidelines: “Any decision of the professional association will be attributed to its members, whether they complied with the decision or not, unless the individual member expressly disassociates himself in writing. Any decision of a professional association, including but not restricted to the constitution or rules of membership, an action to make a recommendation, the day-to-day conduct of the business of the association, resolutions of the management committee, and rulings of the chief executive, may
Conclusions

The need to balance competition policy objectives with those of other public policies can be especially significant in developing countries. A well-functioning framework to implement cartel exemptions should offer a mechanism to perform such assessment while warranting transparency, fairness, and legal certainty. The goal of the World Bank Group’s Investment Climate Department in this area is to assist client countries in developing these policies as a tool to open markets, drive economic growth, and foster international competitiveness.