IMPLEMENTATION OF COMPETITION LAW IN INDIA

THE JOURNEY SO FAR

PRESENTATION BY

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OF INDIA

AGENDA

- 1. INTRODUCTION
- 2. LEGAL FRAMEWORK OF COMPETITION LAW IN INDIA
 - a) CONCEPTUALIZATION OF COMPETITION ACT, 2002
 - b) KEY PROVISIONS OF THE COMPETITION ACT, 2002
- 3. ANTITRUST JURISPRUDENCE
 - a) IMPORTANT CASES
 - b) CASES DECIDED
 - c) COMBINATIONS APPROVED
 - d) PENALTIES IMPOSED
- 4. WAY FORWARD?
 - a) NEW AGE ECONOMY

1. INTRODUCTION

- Competition Act, 2002 (Act) was passed by the Parliament in December, 2002.
- Received the assent of the President of India on January 13, 2003.
- The Act establishes the Competition Commission of India to prevent practices having adverse effect on competition (AAEC).
- Substantive provisions of the Act were notified w.e.f 20.05.2009 (relating to prohibition of anti-competitive agreements and abuse of dominant position) and w.e.f 01.06.2011 (relating to regulation of combinations).

- Prior to the enactment of the Competition Act, 2002, Monopolies and Restrictive Trade Practices Act was enacted in 1969 to:
 - > Prevent the concentration of economic power.
 - Provide for the control of monopolies.
 - Prohibit monopolistic and restrictive trade practices.

(a) Conceptualisation of Competition Act, 2002

- 1991 reform Policy of liberalization, privatization and globalization.
- Finance Minister in his seminal Budget Speech on 24th July, 1991 noted that India should "welcome, rather than fear foreign investment" that "would provide access to technology, capital and markets".
- Raghavan Committee was constituted to examine the MRTP Act and propose a new competition law in light of the changed economic milieu.
- New Act to take care of static, production and dynamic efficiencies.

(b) Key Provisions of the Competition Act, 2002

- Enforcement functions [Sections 3, 4, 5 & 6]
 - Prohibition of Anti-Competitive Agreements (Section 3)
 - Prohibition of Abuse of Dominant Position (Section 4)
 - Regulation of Combinations (mergers or acquisitions) (Sections 5 & 6)
 - Liability of Directors and Office Bearers (Section 48)
- Advisory functions [Section 49 (1) and Section 21]
- Advocacy functions [Section 49(3)] 725 Events conducted so far

Anti-Competitive Horizontal Agreements

Manufacturer 1



Manufacturer 2



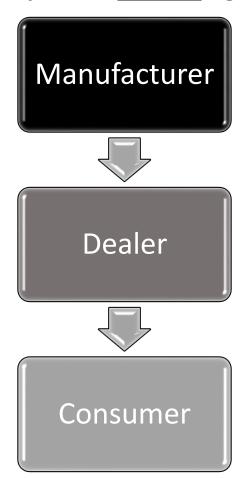
Manufacturer 3

Prohibition of Anti-Competitive Horizontal Agreements [Section 3(3)]

Any <u>agreement</u> entered into between enterprises or associations of enterprises or persons or associations of persons or between any person and enterprises or <u>practice</u> carried on, or <u>decisions</u> taken by, any association of enterprises or association of persons, <u>including cartels</u>, <u>engaged in identical or similar trade of goods or provision of services</u>, shall be presumed to have appreciable adverse effect on competition and therefore void if it:

- Directly or indirectly determines purchase or sales price.
- Limits or controls production, supply, markets, technical development, investment or provision of services.
- Shares the market or source of production or provision of services by way of allocation of geographical area of market, or type of goods or services, or number of customers in the market or any other similar way.
- Directly or indirectly results in bid rigging or collusive bidding.
 An exception exists in the form of joint ventures entered into by competitors,
 <u>provided</u> they bring efficiencies.

Anti-Competitive Vertical Agreements



Vertical Agreements in Section 3(4)

Any agreement amongst enterprises or persons at different stages or levels of the production chain in different markets, in respect of production, supply, distribution, storage, sale or price of, or trade in goods or provision of services, including: -

- ➤Tie-in agreement
- Exclusive supply agreement
- > Exclusive distribution agreement
- ➤ Refusal to deal
- ➤ Resale price maintenance

shall be anti-competitive <u>if</u> such agreement causes or is likely to cause an appreciable adverse effect on competition in India.

- These Vertical Agreements are <u>not</u> seen as presumed violative of the Act. Instead they are judged on the 'rule of reason'.
- This is done by looking holistically at 6 factors prescribed under the Act :
 - Whether the agreement creates barriers to entry for new entrants in the market
 - Whether it drives out existing competitors from the market
 - Whether it forecloses competition by hindering entry into the market
 - > Any benefits that may accrue to consumers
 - Any improvements in production or distribution of goods or provision of services
 - Any promotion of technical, scientific or economic development by such agreement

Prohibition of Abuse of Dominance (Section 4 of the Act)

- 'Dominance' -
 - Ability of an enterprise to behave independently of the market forces
 OR
 - Strength of an enterprise to affect its competitors or consumers in its favour.
- What is "abuse of dominance"?
 - When an enterprise uses its dominant position in the market in an exploitative or exclusionary manner.

Section 4 provides a list of 'abuses' that are prohibited to be conducted by 'dominant' enterprises:

- ➤ Directly or indirectly, imposing 'unfair' or 'discriminatory' conditions/price in purchase or sale of goods/services
- ➤ Limiting/restricting production of goods or technical development to the prejudice of consumers
- Denial of market access
- ➤ Makes conclusion of contracts subject to acceptance of obligations which have no connection with such contracts
- > Leveraging

It is important to note that not dominance, but its abuse is prohibited

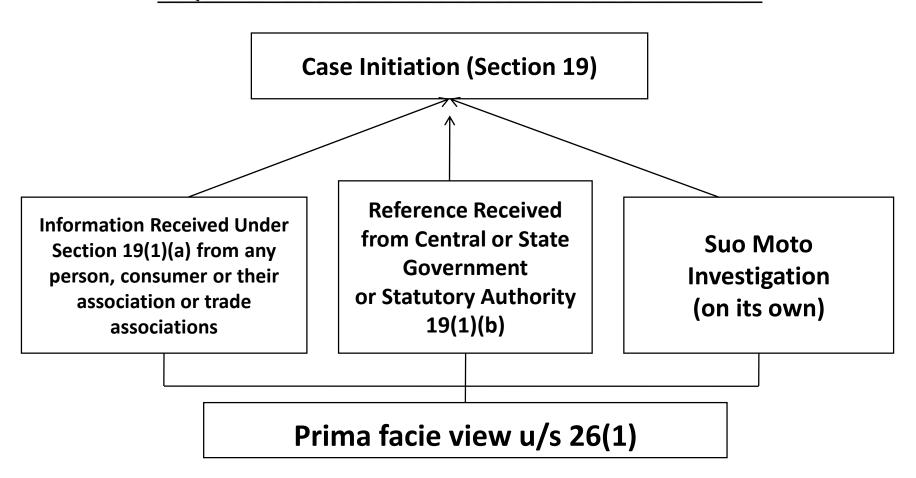
➤ Regulation of Combinations (Sections 5 & 6)

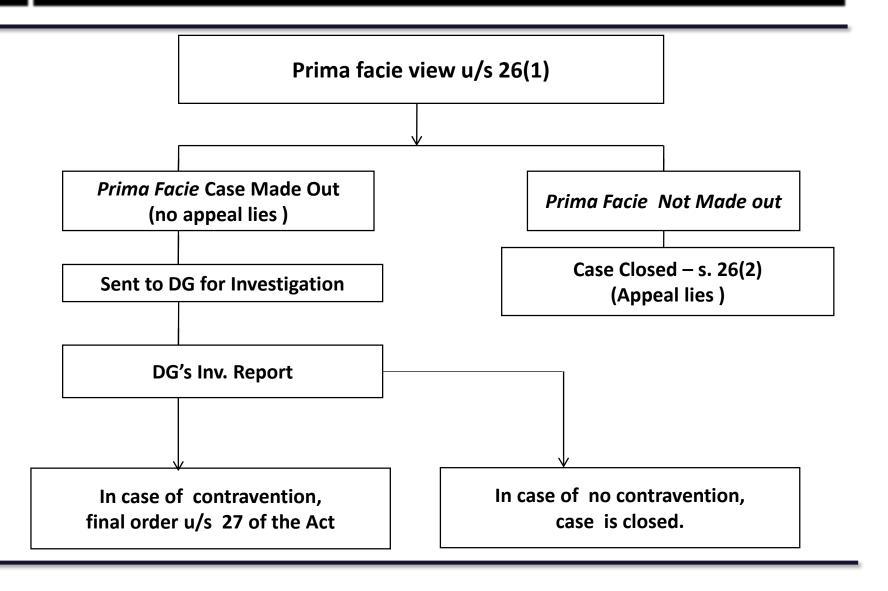
- What is a 'Combination'?
 - > Acquisition of control, shares, voting rights or assets, or,
 - Acquisition of control by a person over an enterprise when such person has already direct or indirect control over another enterprise engaged in identical or substitutable goods or services, **or**,
 - Mergers and amalgamations
- India follows a mandatory notification regime wherein the parties to the combination <u>must</u> notify the Commission if a combination is notifiable as per the Act.
- However, there is respite from notification when target's enterprises assets/turnover are less than INR 350 Crore/INR 1000 Crore, respectively.

SECTION 5 OF THE ACT - THRESHOLDS

Criteria		Assets		Turnover	
Only within India	No Group	>INR 2,000 crore		>INR 6,000 crore	
	Group	>INR 8,000 crore		>INR 24,000 crore	
		Total	Total Minimum Indian Component	Total	Total Minimum Indian Component
Within and outside India	No Group	>US\$1 billion with at least INR 1000 crore in India	1000 crore	>US \$ 3 billion with at least INR 3,000 crore in India	3000 crore
	Group	>US\$4 billion with at least INR 1000 crore in India	1000 crore	>US\$ 12 billion with at least INR 3,000 crore in India	3000 crore

INQUIRY & INVESTIGATION - PROCESS FLOW - SEC.3 AND 4





(1) Cement Cartel case

Principal theory of harm:

➤ 11 cement companies used the platform provided by CMAI and shared details relating to prices, capacity utilisation, production and dispatch and thereby restricted production and supplies in the market, contravening the provisions of the Act.

Evidence Assessed:

➤ In light of the definition of the term 'agreement' under Section 2(b) of the Competition Act, 2002, the Commission assessed evidence on the basis of benchmark of preponderance of probabilities.

[This is important since cartels operate in secrecy and direct evidence is challenging to adduce. Due to this, an 'agreement' need not be "formal or in writing" under the Act.]

Penalty Imposed:

- ➤ Penalties of Rs. 1147.59 crore (ACC), Rs. 1163.91 crore (ACL), Rs. 167.32 crore (Binani), Rs. 274.02 crore (Century), Rs. 187.48 crore (India Cements), Rs. 128.54 crore (J K Cements), Rs. 490.01 crore (Lafarge), Rs. 258.63 crore (Ramco), Rs. 1175.49 crore (UltraTech) and Rs. 1323.60 crore (Jaiprakash Associates Limited) were imposed by CCI.
- ➤ In addition, a penalty of Rs. 0.73 crore was also imposed on CMA.
- ➤ While imposing penalties, the Commission noted the action of the cement companies and CMA as being not only detrimental to the interests of consumers but also as detrimental to the whole economy, as cement is a critical input in construction and infrastructure industry and thus vital for the economic development of the country.

(2) CCI vs Coordination Committee of Artists and Technicians of West Bengal Film and Television Industry & Others

- Informant alleged that he had been assigned the rights to dub and telecast the television serial 'Mahabharat' in Bengali and had entered into agreements to telecast it on two television channels.
- ➤ Under opposition and pressure from two associations, namely the Eastern India Motion Picture Association (EIMPA) and the Committee of Artists and Technicians of West Bengal Film and Television Investors (Co-ordination Committee), one of the two channels decided to not proceed with the telecast.
- Co-ordination Committee argued that they were a trade union of artists and technicians of West Bengal and, as such, were not an 'enterprise'. Accordingly, their acts were protected under Article 19(1)(a) of the Constitution of India.

- Order of CCI: Trade unions are not exempt under Section 3 and by restricting the telecast of the serial, the Co-ordination Committee and EIMPA had restricted output and accordingly violated the provisions of Section 3(3)(b) of the Act.
- Order of COMPAT: Agreed with the contention of the Coordination Committee that there was no contravention of the Act.
- Judgment of Supreme Court (and principal theory of harm): Hon'ble SC allowed CCI's appeal and reversed the COMPAT Order. SC held that;
 - ✓ Coordination Committee was an 'enterprise' under the Act as the notion of enterprise is a relative one. The functional approach and the corresponding focus on the activity, rather than the form of the entity may result in an entity being considered an enterprise when it engages in some activities, but not when it engages in others.

(3) Excel Crop Care vs. CCI

Reference was filed by Food Corporation of India ("FCI") alleging cartel formation in the production and supply of Aluminium Phosphide tablets ("APT") by three parties:

(i) Excel Crop Care Ltd., (ii) United Phosphorus Ltd. & (iii) Sandhya Organic Chemical

Order of CCI:

- Three parties had formed a cartel and thus violated the provisions of Section 3 of the Act.
- Penalty amounting to 9% of the turnover of the three enterprises was imposed under section 27(b) of the Act.

Order of COMPAT:

- On merits, COMPAT upheld the order of the CCI and held that the three parties had contravened S. 3 of the Act by way of fixing prices, limiting supplies and manipulating bids.
- ➤ However, the COMPAT reduced the penalty from 9% of turnover, to 9 % of relevant turnover, i.e. turnover only of the product in respect of which the contravention is established. This was done in respect of the two multi-product companies i.e. Excel Crop & United Phosphorus.
- Hon'ble Supreme Court affirmed the Order of COMPAT.

(4) CCI vs. Fastway Transmission Pvt. Ltd (Judgment dated 24.01.2018, Supreme Court)

- Agreement between Informant (broadcaster of a News Channel Day & Night News) and Multi System Operators (MSOs) who carried the aforesaid channel to persons who watch Cable T.V.
- A channel placement agreement was entered into between the broadcaster and the MSOs, all of which are stated to belong to the Fastway Group.
- > By way of notices of termination dated 19.01.2011, the aforesaid agreements were terminated and the Informant challenged the aforesaid termination.

Order of CCI:

- ➤ CCI observed that in the relevant market of cable TV service in the territory of Punjab and Chandigarh, MSOs group had 85% of the subscriber share in the market and therefore, was in a dominant position.
- > Opposite Party group had contravened Section 4(2)(c) of the Act ('denial of market access') and directed the contravening Parties to 'cease and desist'.
- CCI also imposed a penalty of Rs.80,401,141/- on the entities of the OP group.

- ➤ COMPAT set aside CCI's order and held that the 'denial of market access' under Section 4(2)(c) can only be by one competitor against another, and since a broadcaster cannot be said to compete with MSOs, there would be no violation of either Section 3 or Section 4 of the Act.
- Order of Supreme Court: SC upheld the order of CCI and reversed the COMPAT Order.
 - > Section 4(2)(c) states that a dominant enterprise is abusing its dominant position, if it:
 - o "indulges in practice or practices resulting in denial of market access in any manner".
 - > SC found that no reasons were given for termination in the notice of termination which meant that an abuse had been committed since the words "in any manner" that are used in Section 4(2)(c) of the Act "are of wide import and must be given their natural meaning".

(5) MDD Medical Systems India Private Limited v. Foundation of Common Cause & People Awareness & Ors.

Foundation for Common Cause & People Awareness filed an 'Information' alleging that there was bid rigging in the tender for supply, installation, testing and commissioning of Modular Operation Theatre (MOT) and Medical Gases Manifold System (MGMS) for Sports Injury Centre, Safdarjung Hospital, New Delhi.

Order of CCI:

- CCI had held that there was violation of Section 3(3)(d) read with Section 3(1) of the Act by indulging in the process of 'bid rigging' in the matter of supply and installation, testing and commissioning of MOT and MGMS.
- CCI imposed penalty of 5% of the entire turnover.

Order of COMPAT:

On merits, COMPAT upheld the order of CCI. Penalty was reduced to 3% of the entire turnover.

(6) DLF Limited vs CCI

■ Facts:

- ➤ The subject matter of the case before the erstwhile COMPAT pertained to apartments built by DLF.
- ➤ DLF constructed more floors and consequently the areas and facilities originally earmarked for the apartment allottees were substantially compressed.
- ➤ It was further pointed out that the project was abnormally delayed, as a result of which, hundreds of apartment allottees had to bear huge financial losses and they had to wait indefinitely for occupation of their respective apartments.

Order of CCI:

CCI imposed a penalty of Rs. 630 Crore, finding abuse on part of DLF.

Order of COMPAT:

- COMPAT upheld the order of CCI.
- Matter is in appeal before SC.

(7) Gulf Oil case (M/s Gulf Oil Corporation vs. Competition Commission of India)

■ CCI held certain companies guilty of the contravention of Section 3(3)(d) of the Act wherein, they were found to have manipulated the bidding process in the electronic reverse auction held by the Informant – Coal India Limited ("CIL").

COMPAT Order:

It simply cannot be imagined that all the 26 manufacturers barring the two, on their own decided not to put in the price bid, particularly on the backdrop of the fact that their representative body namely EMWA was vociferously trying, firstly to avoid the reverse auction and secondly, to postpone the same.

(1) Coal India case (Maharashtra State Power Generation Company vs. Coal India)

Facts:

➤ Maharashtra State Power Generation Company Limited (MAHAGENCO) and other power companies filed information before the CCI dated 16.01.2012 with the allegation that Coal India Ltd. and its three subsidiaries, namely, Mahanadi Coalfields Ltd., Western Coalfields Ltd. and South Eastern Coalfields Ltd. have abused their dominant position and acted in contravention of Section 4(2) of the Act.

Order of CCI:

➤ The Commission held Coal India to be in contravention of the provisions of Section 4(2)(a)(i) of the Act for imposing unfair/ discriminatory condition in the matter of supply of non-coking coal to power producers.

- ➤ DG found that FSA was prepared by Coal India for different categories of buyers without discussing with them. However, it was noted that whereas for the existing power producers some modifications were made by way of mutual agreement in 2009, no such negotiations were done in the case of new power producers.
- ➤ Various clauses in the FSA relating to the grading of coal/sampling/ unilateral termination of FSA were examined and the Commission was of the considered opinion that CIL did not evolve/ draft/ finalize the terms and conditions of FSAs through a mutual bilateral process and the same were imposed upon the buyers through a unilateral conduct.
- Therefore, the Opposite Parties were found to be in contravention of the provisions of Section 4(2)(a)(i) of the Act for imposing unfair/ discriminatory conditions in the matter of supply of non-coking coal to power producers.

- (2) Cases under the Lesser Penalty Regulations:
- (i) Cartelization with regard to tenders floated by Pune Municipal Corporation (1) Case No. 50 of 2015, (2) Suo-Motu case 3 of 2016 and (3) Suo-Motu case 4 of 2016, dated 1st and 31st May, 2018.
- In case No 50 of 2015, Nagrik Chetna Manch filed 'Information' regarding tender for Design, Supply, Installation, Commissioning, Operation and Maintenance of Municipal Organic and Inorganic Solid Waste Processing Plants of the Pune Municipal Corporation.
- The *suo-motu* cases were taken up by CCI based on the disclosure by firms under Section 46 of the Act. All firms in these cases had approached CCI as lesser penalty applicants.
- CCI found that there was bid rigging/ collusive bidding in the Suo-Motu Case No. 3 of 2016 and Suo-Motu Case No. 4 of 2016, in contravention of Section 3(3)(d) read with Section 3(1) of the Act by way of submitting proxy/cover bids.

(3) Google Case - (Bharat Matrimony & CUTS vs. Google)

Order of the CCI

- <u>Search Bias</u>: CCI found prominent display of Commercial Flight Unit by Google on Search Engine Result Page (SERP) with link to Google's specialised search options/services (Flight) in contravention of the provisions of Section 4(2)(a)(i) of the Act. CCI noted that Google through its search design has allocated disproportionate real estate thereof to such units to the disadvantage of verticals trying to gain market access.
- <u>Intermediation Agreements</u>: CCI found that the intermediation agreements were unfair as they restrict the choice of partners and prevent them from using the search services provided by competing search engines. Thus, a contravention of the Act was made out on this ground.

Penalty of Rs. 135.86 Crore was imposed.

B. STATISTICS

Number of Cases Disposed (Number of Orders) Antitrust

Total Orders under Section 27
Of contravention
since 2009 – 135 Orders

S. No.	Year	Orders Rendered
1	2009-2010	29
2	2010-2011	143
3	2011-2012	168
4	2012-2013	119
5	2013-2014	153
6	2014-2015	144
7	2015-2016	153
8	2016-2017	179
9	2017-2018	96
10	2018-2019	90
	Total	1,274

3. STATISTICS

S. No.	Year	Combinations Approved
1	2011-2012	40
2	2012-2013	65
3	2013-2014	44
4	2014-2015	82
5	2015-2016	107
6	2016-2017	104
7	2017-2018	63
8	2018-2019	89
	Total	594

Number of Combinations Approved

<u>Per</u>	<u>าลl</u>	ties
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S. No.	Year	Penalty Imposed (INR Crore)
1	2011-2012	860.38
2	2012-2013	7,156.18
3	2013-2014	688.36
4	2014-2015	2,592.39
5	2015-2016	1,501.64
6	2016-2017	288.28
7	2017-2018	436.65
8	2018-2019	357.85
	Total	13,881.73

WAY FORWARD

NATURE OF NEW AGE ECONOMY









CONNECT

More connectivity options and higher broadband speeds have made it easier to browse the Web.

BARRIERS TO ENTRY ARE LOW

This allows anyone with a creative idea to create a scalable product, thanks to network effects

NETWORK EFFECTS

Network Effects lead to the value of the 'platform' increasing with an increase in the users on either side of the platform.

MANY BUYERS AND SELLERS

The structure of most new startups delivers an aggregation of service providers.

SOME KEY ISSUES IN THE DIGITAL ECONOMY



ONLINE PLATFORMS

- When talking about online platforms, it should be understood that we are talking about 'multi-sided markets' since such markets are key part of the digital economy.
- Such markets are characterized by 'direct' and 'indirect' network effects. The former refers to users on the same side of the platform interacting with each other and the latter refers to two sets of users interacting with each other, such as buyers and sellers.
- Question Whether anti-competitive conduct on one side of the platform must take into account the impact on only that side of the platform or whether it should take into account the impact on both sets of market participants?
- For example, if a cab aggregator company 'A' unilaterally increases the commission charged from its drivers, it may lead to drivers migrating to another platform and therefore, make riders of company 'A' pay more for each ride since less cabs will be available on platform 'A'. However, it is also possible that increased commission charges may also be used to subsidize the riders of company 'A' as well. How should antitrust treat such unilateral conduct?

ONLINE PLATFORMS

- It has been posited by some platforms that the act does not cover free services (that are usually offered by platforms).
- However, consideration does not necessarily have to be monetary in nature. Section 2(o) of the Act defines "price" 'in relation to the sale of any goods or to the performance or any services, includes every valuable consideration, whether direct, or indirect, or deferred, and includes any consideration which in effect relates to the sale of any goods or to the performance of any services although ostensibly relating to any other matter or thing'.
- In the CCI's ruling in *Bharat Matrimony/CUTS* vs. *Google* ,it has been held that users offered indirect consideration to Google by: (a) providing their attention or 'eyeballs' to search engine results page; and (b) allowing Google to collect and use their information, both of which facilitates generation of revenues by Google as it attracts more advertisers.

BIG DATA

- 'Big Data' appears to be a meticulously assembled agglomeration of data that is more organized than regular 'data' and it distinguished by the 4 'V's - 'Velocity', 'Variety', 'Volume' and 'Value' that is subsequently derived.
- However, it should be noted as per the Hon'ble Supreme Court verdict in Puttaswamy vs. Union of India, such collection of data cannot be absolute and has to be for legitimate purposes and proportionate to such purposes.
- Big Data is also an issue when looking at 'combinations' as the combined market share of the acquiring entity and the target entity (in terms of the unique datasets they possess) might be formidable, even though it does not trigger thresholds under the Act.
 - For instance, Google had recently acquired Halli Labs, an Artificial Intelligence Startup based in Bangalore. While the transaction did not trigger the thresholds, it did result in a removal of a competitor in the AI ecosystem in India.

4. Way forward

- Some may say that this is part of a larger trend where dominant technology companies acquire disruptive firms in adjacent market which have the capacity to rival incumbent dominant firms in terms of product offerings – For e.g. Facebook/Instagram, Google/DoubleClick, Facebook/WhatsApp).
- The question therefore does arise whether massive data collection is a hindrance / barrier to entry of new entrants that lack such data collection capabilities?
- Even though data collection is non-rivalrous (i.e. a firm collecting data from a set of users does not prevent another firm from collecting the same data as well), most complainants submit that
 - > Data is expensive to collect
 - > Data collection is not subject to the law of diminishing returns as more data leads to more pinpoint accuracy
 - ➤ Competition is not a 'click away', since in the absence of multi-homing, larger dominant firms collect data by offering multiple services and building a richer user profile that leads to the user sticking with the dominant firm.
 - ➤ Large online platforms may use data gathered from other sellers on their platform and use that data to iterate products offered by sellers affiliated to them.

ALGORITHMIC COLLUSION

- Algorithms are structured decision making processes, based on a set of rules or procedures.
- Recently, in the United States, a district court in Manhattan held that a class action complaint had shown sufficient cause to allege that the pricing algorithm of Uber amounted to a price-fixing conspiracy. It was alleged that **but** for the pricing algorithm of Uber, drivers would deviate from the set algorithm and charge lower prices to compete for customers.
- Algorithm driven monitoring Sophisticated price tracking software has made it easy for some firms to collect data on prices charged by other competitors and monitor any deviation from the price set by a cartel of firms to punish the 'deviant' firm. The CCI has not reviewed any cases in this regard yet.

4. WAY FORWARD

- In USA, Mr Topkins pleaded guilty in a San Francisco federal court in 2015 to rigging prices for classic cinema posters sold through Amazon's online marketplace. Topkins case made anti-trust agency to say that anticompetitive conduct, whether it occurs in a smoke-filled room or over the Internet using complex pricing algorithms will not be tolerated.
- If several competitors all adopt the same pricing technology and react identically to changing market conditions the result would be the same as if their executives had colluded on prices, according to Maurice Stucke and Ariel Ezrachi, authors of the book Virtual Competition.
- In India, the cases of e-commerce and digital space thus far investigated relate to vertical agreements and abuse of dominance.
- However, the Commission is conscious of possible algorithmic collusion.
- CCI has set up an advanced Forensic and Cyber Lab.
- Market study on e-commerce is in progress.

