



Organisation for Economic Co-operation and Development

DAF/COMP/AR(2019)20

Unclassified

English - Or. English

9 May 2019

Directorate for Financial and Enterprise Affairs  
COMPETITION COMMITTEE

## Annual Report on Competition Policy Developments in Latvia

-- 2018 --

5-7 June 2019

This report is submitted by Latvia to the Competition Committee FOR INFORMATION at its forthcoming meeting to be held on 5-7 June 2019.

JT03447208

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## Latvia

### Foreword by the Chairwoman of the Competition Council

Have we managed to make the competition environment better in the previous year? Definitely! At first, last year have reached record number of merger notifications. That led us to analyse approximately 25 economic sectors. In one of them - retail - we took a decision to prohibit the merger based on the analysis of data gathered in consumers' survey. Thus, we ensured to the consumers that the possibilities of choice and variety of shopping places do not reduce.

There were also sufficiently significant infringements established. Like always, our studies included many bid-rigging cases. In two cases - regarding procurements of office equipment and procurements of amelioration services - decisions were made and fines were imposed. In another seven cases for alleged signs of coordinated actions in total 37 persons received warnings, which is the highest number of warned persons per year. We are sure that such active prevention measures can improve the environment of public procurements and warned persons will review their operation and refrain from implementation of allegedly illegal actions in future.

The Authority continued to supervise unjustified involvement of public administrative bodies in business. It appears that advocacy - recommendary callings to refrain from actions promoting competition distortions - not always may achieve the positive result.

If an undertaking owned by a local government is in a dominant position, it shall have special responsibility in order not to abuse its market power against customers, suppliers etc. For example, SIA ZAAO, which is owned by 28 municipalities possess a dominant position in the Northern Vidzeme waste management region. The Authority concluded that the abuse of market power was permanently ignored. Therefore, the Authority adopted a decision, imposed a fine and legal obligations in order to change its actions.

In many other cases the Competition Council did not have the power given by law to refrain public administrative bodies from creation of competition distortions. Thus, we are excited about 2019 when new members of the Parliament will discuss amendments to the Competition Law. We hope that members of the Parliament will understand the importance of competition neutrality and how important it is for the competition authority to receive bigger powers to eliminate competition distortions made by public administrative bodies.

No doubt that last year was special with important market studies in high prioritized sectors. In two of them - states' monopoly position in the vehicle technical inspection market and identified problems in distribution of reimbursed medicines - we identified significant market structure problems and administrative restrictions and burdensome regulations. In both cases distortions significantly affects availability of goods and services. Concentrated market structure and high price did not benefit consumers and clients. Discussions after market studies bring hope that we are on the right way to make the competition environment better in these sectors.

In 2018, the Competition Council unfortunately got an approval that although we live in the free market economy, the term 'monopoly' is still respected in public sector and partly in society. We organized the huge number of different educating workshops, conferences and meetings across the whole Latvia in order to explain what fair competition means, how

responsible procurement organizers as well as honest and independent applicants should behave. That definitely made the competition environment better. However, we understand - we still have a lot to do so the competition culture would become an integral value of our life and economy.

## 1. Basic information

1. The Competition Council of the Republic of Latvia is a direct public administration authority operating under supervision of the Ministry of Economics. The principal area of operation of the Competition Council is the implementation of the competition policy, and it is divided into two sub-areas – development and protection of the competition culture. The independence in decision making of the Competition Council is stipulated in the Competition Law.
2. The main aim of the Competition Council is to give every market participant a possibility to perform economic activities in a free and fair competition environment, as well as to ensure a favourable environment for maintenance, protection and development of competition for the benefit of society.
3. Areas of activity and outcomes of the Competition Council are:
  - Detection of Prohibited Agreements: undertakings do not engage in cartels or enter any other prohibited agreements;
  - Aversion of Abuse of dominant position: large and dominating companies in their market sectors do not abuse their market power;
  - Merger control: mergers that create monopolies or excessively large companies with potentially negative impacts on the interests of consumers or cooperation partners do not occur;
  - Control over legislation: advocacy activities to remove restrictions in legislation, regulations and any other state or local government decisions or actions that distort the development of free and fair competition;
  - Promotion of competition: competition is promoted in the markets, including the regulated ones, where it is limited or non-existent;
  - Raising public awareness: society receives comprehensive information about the positive effects of fair competition on market functionality and social welfare.
4. Implementation of the competition policy as a key objective of the Competition Council is divided into two priority directions. The first concerns the overall protection of fair competition, which involves protection of market participants and the society against negative effects of market concentration and violations of the Competition law. The second concerns development of the competition culture. This priority includes of tasks including provision of proposals aimed at reducing administrative barriers, as well as information provision for consumers, market participants, public and local government authorities about the nature and application of the Competition Law. These measures aim to preemptively prevent risks of competition violations.

## 1.1. Structure of the Competition Council of Latvia

Figure 1. Organizational chart of the Competition Council



5. The Decision-Making Body – the Competition Council – consists of a Chairperson, who is also head of the institution, and two Council Members. The Chairperson and Council Members are appointed by the Cabinet of Ministers based on the recommendation by the Minister of Economics. The Chairperson and Council Members have five-year term limits, and these officials may be re-appointed for 2 terms maximum. The Chairperson manages activities of structural units subordinated to the Council – Administrative Unit, Communication Unit, Strategic Planning and Development Manager, and Competition Policy Advisor.

6. The Executive Body is run by the Executive Director who is directly subordinated to the Chairperson. Structural units of the Executive Directorate include Cartel department, Analytical department, Legal Department, Economic Analysis Unit, and Competition Promotion Unit. Departments evaluate various applications and investigate violations of the Competition Law, as well as prepare conclusions and draft decisions, perform supervision of competition environment, control execution of legal obligations and represent the Competition Council in courts. The Economic Analysis Division provides an in-depth economic and econometric analysis during case investigations, while the Competition Promotion Unit evaluates whether documents, prepared by other institutions and authorities do not distort competition and provide suggestions for possible solutions.

## 2. Performance results of the Competition Council in 2018

7. In 2018, the Competition Council had achieved the planned targets. During the year for fulfilment particular tasks such as evaluation of merger notifications, representations during court proceedings, provision of opinions and recommendations also legislative drafts authority more resources were allocated. (see Table 1).

**Table 1. Result-based Performance Indicators of the Competition Council**

	Measure Activity	Targets 2018	Results 2018
<b>1.</b>	<b>Disclosure and prevention of most severe competition infringements and market distortions, non-allowance of negative concentration on markets</b>		
1.1.	Preventive measures and investigation of alleged violation cases performed, market inquiries (total number of measures/number of measure with high priority) Priority sectors - transports and communications, digital economic, pharmacy, finance and insurance services, public procurements, relations between retailers and food suppliers	28/10	25/13
1.1.1.	including in relation to the application of the Unfair Retail Practice Prohibition Law	2	2
1.2.	Reviewed impact of planned mergers and agreements on the competition situation in markets (number of cases/ number of cases with high priority)	15/5	20/5
1.3.	Performed in-depth analyses of data (digital evidences) acquired during dawn-raids (number of analysed image copies) To be calculated once a year	8	8
1.4.	Representation in the court proceedings	15	25
1.5.	Completed administrative proceeding and upheld decisions of the Competition Council (proportion %) To be calculated once per year	80	100
<b>2.</b>	<b>Promotion of understanding of market participants and public administrative bodies regarding free and fair competition, competition policy and culture</b>		
2.1.	Provided explanations, opinions, recommendations, ensured drafting of regulatory enactments and guidelines (number of documents)	90	131
2.1.1.	including in relation to the application of the URPL	10	17
2.1.2.	including in relation to the application of Section 88 of the SASL	10	16
2.1.3.	The Authority's eliminated limitations from activities of public administrative bodies (proportion of the achieved positive result versus the number of all performed measures %) To be calculated once per year	14	30 (9/30)
2.2.	Promotion of public understanding on free and fair competition (number of events)	11	31
2.2.1.	including in relation to the application of the URPL	1	4
2.3.	Positive assessment from entrepreneurs on the activities of the Competition Council (proportion of answers "positive" and "rather positive" to the relevant question in the survey in %)	85	69
<b>3.</b>	<b>Strengthening of the Authority's role and recognition within the international environment</b>		
3.1.	Strengthened role and visibility of the Competition Council internationally (number of publications and events)	31	37
4.	Capacity strengthening, grounding on professional and responsible employees		
4.1.	Turnover of employees (number of employees who left versus the total number of employees %) To be calculated once per year	25	24
4.2.	Loyalty of employees (proportion of employees, %, who have responded in the survey that they will continue legal relations with the Authority for the next 2 years) To be calculated once per year	70	86

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8. There are 4 directions that reflect main strategic 3-year priorities and main activities or indicators to measure fulfilment of these priorities. Activities (indicators) 2.3., 4.2. are measured after analysis of public stakeholder survey (once 2 years covering different groups such as public entities, enterprises, association and lawyers) and internal survey results (once year measuring internal environment in authority). It is worth mentioning that

advocacy success rate in 2018 (activity 2.1.3.) increased 2 times versus target. Other activities are based on statistic by numbers of decisions, opinions, legal proceedings and other activities.

## 2.1. Decisions of the Competition Council of Latvia

**Table 2. Statistical summary of decisions**

<b>Prohibited agreements</b>	<b>3</b>
Detected violations	2
Terminated investigations	1
<b>Abuse of dominant position</b>	<b>1</b>
Detected violation	1
<b>Mergers</b>	<b>21</b>
Cleared mergers	19
Blocked mergers	1
Infringement established (failure to notify the merger in a timely manner)	1
<b>Unfair retail practice</b>	<b>1</b>
Detected violation	1
<b>Total number of decisions</b>	<b>26</b>

9. In 2018, the Competition Council adopted a total of 26 decisions, and imposed fines in the total amount of 308 514 EUR on 8 enterprises. The amount of fines was based on turnover of the previous financial year for the market participant involved, taking in account severity, length and consequences of the violation.

10. In two cases bid-rigging in public procurements were detected. In one case the Competition Council signed an administrative agreement to avert abuse of a dominant position.

11. In 2018, the Competition Council took its first decision on the breach of the Unfair Retail Practice Prohibition Law. The Law was introduced in Latvia on 1 January, 2016.

12. By 20 decisions the Competition Council was reviewing notified mergers. In 19 cases harm to the competition was not detected, therefore, mergers were cleared. In one case the merger was blocked as the harm to the competition would be significant. In one case the market participant was fined for the failure to notify the merger in a timely manner.

## 2.2. Legal proceedings

13. In 2018, seven court proceedings were completed, and in all cases the outcome beneficial for competition was achieved. In one of the cases the court proceeding was terminated afterwards, when the Authority entered into the administrative agreement with the infringer.

14. After decisions of the Competition Council coming into force, including after completion of court proceedings, undertakings have paid into the state budget the imposed fines in the amount of 445 612.93 EUR.

15. Among the most significant court decisions, the Authority should point out the judgement of the Supreme Court where it decided to uphold the decision of the Competition Council of 2014 to fine Liepājas autobusu parks for abuse of dominant position.

16. In the decision the Authority established that the undertaking, at the same time being both, the manager of Liepāja Bus Terminal as well provider of the public transportation services to its competitors – other carriers of passengers – unreasonably applied significantly higher price for use of the services of the bus terminal. Thus, AS Liepājas autobusu parks got significant competitive advantages in procurements organized for provision of intercity bus services limiting the competitiveness of other carriers.

17. A fine in the amount of EUR 129 369 was imposed on the undertaking for competition distortion.

18. Furthermore, the Supreme Court adopted the judgment, pursuant to which it is stipulated in the competition law of Latvia that parent companies may bear joint responsibility for competition law infringements committed by subsidiaries.

19. That means that also in the future in cases of infringement of competition law the Competition Council will be entitled to impose responsibility on the parent undertakings regarding competition infringements committed by subsidiaries.

## **2.3. Investigation of violations of the competition law**

### *2.3.1. Prohibited agreements*

20. In 2018, the Competition Council detected two prohibited agreements, and both were related to bid-rigging in public procurements.

21. The Authority established that three undertakings providing amelioration services – SIA LIMBAŽU MELIO, SIA Bauskas meliorācija and SIA Meliorācijas eksperts – have unlawfully acted in four tenders organized within the EU funded projects administered by the Rural Support Service. While the office equipment service providers and suppliers SIA TOMEGA and SIA BTK.LV distorted competition in several procurement procedures.

22. All undertakings acted according to the similar scheme - agreed the cost-estimates to be submitted for tenders and agreed on the terms and conditions of participation as well as on the winner. Thus, there was no genuine competition between participants of the market, offers were not made in the circumstances of real competition, as well as the tender organizers were misled on the real market situation.

23. The Competition Council imposed to amelioration undertakings a fine in the amount exceeding EUR 70 000, while to the office equipment service provider and the supplier SIA TOMEGA (the second company was liquidated before adoption of the decision) – in the amount of slightly exceeding EUR 33 000.

24. If the Competition Council finds any signs of possible prohibited agreement, but there is no indications on substantial harm to competition, the Authority may issue warnings to market participants. In such cases the purpose of prevention is to promote understanding of entrepreneurs, therefore, the Authority does not impose a fine to the warned persons.

25. In 2018, the Competition Council issued warnings to 37 persons in seven alleged infringements. That is the biggest number of warned persons within a one year since 2013, when the Authority established the practice of warnings.

### *2.3.2. Abuse of a dominant position*

26. In 2018, the Competition Council established one abuse of dominant position. On 21 March, the Competition Council entered into the administrative agreement with the undertaking SIA ZAAO, owned by 28 municipalities and being in the dominant position in the waste management region of Ziemeļvidzeme.

27. The undertaking unreasonably prohibited cooperation partners to enter into agreements only regarding particular waste collection fields that are necessary for operations thereof, forcing to use all fields owned by SIA ZAAO. Besides, the undertaking applied the field infrastructure maintenance fee, which was not economically reasonable, and it was determined differently to every packaging manager.

28. The Competition Council imposed an obligation on SIA ZAAO to eliminate the established non-conformities, as well as applied a fine in the amount of EUR 36 665.

29. Similarly to prohibited agreements, in cases when the Competition Council finds alleged non-compliances in the activities of dominant undertakings, but these actions do not affect large part of the market, the Authority may perform negotiation procedure with the particular market participant. Thus, dominant undertaking commits to change its behavior deliberately, without imposing a fine on the undertaking.

30. In 2018, the Competition Council achieved an outcome beneficial for competition during three negotiation procedures.

31. At the end of 2018, the Supreme Court decided that the Freeport of Riga Authority must compensate damages to the private tugboat company AS PKL Flote for the abuse of dominant position. An obligation was imposed on the Freeport of Riga to compensate to the undertaking for damages in the amount of almost EUR 1.35 million. AS PKL Flote filed complaint in the court after decision of Competition Council founding Freeport of Riga Authority liable for the abuse of dominant position.

32. This is the first time, when a court in Latvia has concluded that a public person has an obligation to compensate damages to the private commercial company for abuse of a dominant position.

## **2.4. Merger Control**

33. In 2018, the Competition Council adopted 21 merger decisions. In 19 cases the Authority did not find any harm to competition and cleared the notified mergers, but in one case significant harm to competition was established, therefore prohibited to implement the planned transaction.

34. In one case the Competition Council established unnotified merger and imposed a fine on the market participant.

35. In 2018, undertakings involved in mergers have paid into the State budget fees in the amount of EUR 92 000.

36. On 17 December, the Competition Council decided to prohibit one of the largest retailers in Latvia SIA MAXIMA Latvija (MAXIMA) to acquire the commercial premises in centre of the capital city, where competing retailer SIA ESSA was operating at the moment of submission of the merger notification. SIA ESSA is operating on the daily consumer products retail market under the trademark “top!”.

37. During the course of merger review, the Authority performed survey of consumers and established that the affected market is the daily consumer products retail market within the walking distance of approximately four minutes around the particular commercial premises. At the moment of submission of the notification in total five shopping places were operating in this territory, in three of which SIA RIMI LATVIA (the other largest retailer) is operating, in one – MAXIMA and in one – SIA ESSA.

38. After implementation of the transaction on the particular market only two biggest retailers would continue their operation, thus increasing their market share as well as the number of MAXIMA stores. That would change the structure of the market and would significantly decrease competition, as well as restrict the variety and choice for consumers. Taking into account the above-mentioned circumstances, the Competition Council did not permit SIA MAXIMA Latvija to acquire the rights of lease for the commercial premises in Riga, at Tērbatas iela 33/35.

39. In order to consult market participants for preparation of the merger notification to be submitted to the Competition Council, the Authority provided 49 pre-merger consultations.

## 2.5. Unfair Retail Practices

40. The Unfair Retail Practice Prohibition Law (the URPPPL) came into force in Latvia on 1 January 2016. The purpose of it is to restrict the use of the buying power of retailers against suppliers in order to balance their interests in retail. The Competition Council is the responsible authority for supervision of the compliance with the law.

41. Within a year the Authority provided to market participants three workshops on the application of norms of the URPPPL, as well as provided 16 statements.

42. Since 2015, the Competition Council has actively implemented various measures in order to promote understanding of entrepreneurs on the URPPPL and its application in practice. The Authority has consulted more than 500 representatives of undertakings, organized several conferences and workshops, as well as prepared and updated guidelines and has performed inquiry of the market for introduction of the URPPPL. In 2018, the Authority took the first decision finding breach of the URPPPL.

43. Initially during the market inquiry the Authority found alleged non-conformities in the activities of the operator of the stores with trademarks Mego and Vesko - SIA Baltstor and the partner SIA Lenoka and decided on initiation of the infringement case.

44. During the investigation, the Competition Council established that both undertakings have applied to suppliers unfair and unreasonably high sanctions for different small unconformities. The amount of sanctions reached up even more than 400% from the sum of the principal debt. At the same time retailers have failed to introduce measures in order to initially eliminate and minimise such errors for which suppliers were sanctioned.

45. The Competition Council imposed a fine on SIA Baltstor in the amount of EUR 13 533 and on SIA Lenoka in the amount of 60 487 EUR. A legal obligation was imposed on undertakings to change the unfair practice.

## 2.6. Sector (market) inquiries

46. The purpose of sector inquiries is to get in-depth insight into different economic sectors, to gather information about competition issues and to search solutions for elimination of them. In 2018, the Competition Council completed eight sector inquiries. Two of them must be highlighted.

### *2.6.1. Proposal to liquidate unreasonable state monopoly in the car technical control market*

47. In 2018, the Competition Council completed inquiry into the market of technical inspections. Each individual and legal person owning the car is obliged once a year or less to carry out technical control that is provided by State owned company Road Traffic Safety Directorate (RTSD). For provision of technical control RTSD granted rights (accredited) under exclusive conditions and for excessively long term to particular private partners. That excluded any possibilities for competition in the technical control market. The Authority established that the state unreasonably limits the possibilities of the private sector to provide one of the components of the technical inspection - control of vehicle technical condition.

48. At the same time RTSD holds jointly with the private partners the capital shares in companies active in the market and conducts accreditation and supervising the control of these companies under public obligation. That significantly violates the principle of competitive neutrality.

### *2.6.2. Harm to competition*

49. RTSD has a double role on the market - it supervises the provision of the service and at the same time, while having shares in four private undertakings, carries out the control of vehicles technical condition. Thus, when making a decision regarding licensing other potential competitors on the market, it is impossible for RTSD to take the impartial and neutral position. While having the financial interest in the private undertakings, it is obvious that the possibilities of other undertakings to enter the market will be restricted.

50. The Authority also founded that the accredited undertakings have designated exclusive territories where to provide their services and do not compete for clients.

### *2.6.3. Harm to consumers*

51. Harms is also caused to consumers. Availability and possibilities to choose service provider, price competition and other advantages of competition, do not exist in this market. Price for performance of technical control have increased by 50 - 60% to consumers during the recent ten years. In comparison with the other EU countries, technical inspections in Latvia must be passed almost twice as often, therefore the total expenses thereof during the operational cycles of cars (in five, ten and 15 years) are among the most expensive ones in the EU countries, but in Baltic States - the most expensive ones.

52. Besides, the availability of the service is significantly limited for consumers. Authority compared it with other EU countries; and found that almost in most of them technical control is provided to consumers under competitive conditions. For example, 30% of all 700 thousand vehicles are located in the capital Riga, having only one technical inspection station. Availability of service in Riga area is approximately 20 times lower than in other EU countries.

#### ***2.6.4. Proposal***

53. The current system permits unreasonable intervention of the state, limits competition and leaves a negative impact on consumers. In order to eliminate the above-mentioned circumstances, the Authority proposed to open this market for free competition. In accordance with the publicly available information, the Ministry of Transport plans that RTSD will cease to perform the service of vehicles technical condition control as of 2023. The Competition Council continues to follow the events on this market.

#### ***2.6.5. Inquiry highlights problems in the distribution of reimbursed medicines***

54. In 2018, the Competition Council completed the inquiry into the market of distribution of reimbursed medicines, establishing systemic issues both, in the distribution of medicines as well as procedure for allocation thereof, having a negative impact on the availability of medicines to consumers.

55. During market inquiry the Authority organized the consumers' survey. The data showed that 87% of respondents have had difficulties to receive reimbursed medicines in pharmacies, highlighting problems existing in Latvia in the physical availability of medicines.

56. The Authority established that the market concentration for wholesale of medicinal products increasing - 83% of the market consists of four biggest wholesalers, causing high competition risks. Besides, there are circumstances existing in both levels of distribution of medicines - manufacturers and wholesale - delaying availability of reimbursed medicines to consumers.

57. On the manufacturer level this include difficulties to plan delivery volumes, which is affected by the inaccessibility of information on the actual demand for medicines in the state, stocks in wholesale and exports, performed by wholesalers. While on the wholesale level problems is non-existence of transparent system for allocation of medicines. That does not allow supervisors of the sector to effectively control, whether pharmacies are provided with medicines within 24 hours and whether the competing pharmacies are not discriminated.

58. After completion of the inquiry the Competition Council initiated the meeting with participants of the sector in order to discuss conclusions and possible further activities.

### **2.7. Improvements in the Legal Framework**

59. On 26 June, after discussions for more than two years the Cabinet of Ministers approved amendments to the Competition Law that would provide effective authority to the Competition Council to turn against competition distortions created by public administrative bodies (state and municipalities). Such distortions are most common form of undue interference in the market and being one of the most common problem of the competition environment in Latvia for many years.

60. Amendments, that have become more compliant during discussions of the involved parties and without effective sanctions only affirm the principle that public persons should comply with the competition neutrality, were reviewed by the Saeima. As far as the election of the Saeima were held in October 2018, the new composition of the Saeima Economic Committee insisted at the end of the year on more strict conditions for disciplining public administrative bodies. Review of amendments will be continued also in 2019.

### 3. Impacts on competition by public administrative bodies

61. Section 88 of the State Administration Structure Law (the SASL) provides that state and municipalities may get involved in entrepreneurship only in certain cases: 1) if there are no private undertakings, being able to provide the specific services, and otherwise it is not possible to effectively prevent market failures; 2) if it is necessary to create goods or services, or manage properties that is of strategic importance for development of the administrative territory of the state or municipality or national security.

62. In order to minimise unreasonable involvement in entrepreneurship, public administrative bodies shall consult with the Competition Council before planned foundation of the capital undertaking or reassessment of their activity therein. In 2018, the Authority provided an opinion in 16 such cases.

63. In total the Competition Council received 63 applications in relation to activities of public administrative bodies, including competition distortion.

64. In order to eliminate harm to competition in different economic sectors, which could be potentially caused by changes in the legal framework, in 2018 the representatives of the Competition Council drew the attention of legislators by 48 opinions on 26 sectors. In nine cases the legislator took into account the arguments of the Authority and the regulation harmful for competition was not adopted.

65. The Authority objected the competition restrictions in draft regulations prepared by the Ministry of Welfare regarding facilitation of employment and qualification increase of unemployed persons and in the draft prepared by the Ministry of Education and Science regarding improvement of professional competence of employed persons.

66. Namely, the regulations included the unjustified criteria that primary the state and municipality founded professional education institutions would be authorized for implementation of trainings, restricting the possibilities of private competitors. The procedure caused unreasonable advantages for state and municipality founded professional education institutions with regards to conclusion of cooperation agreements with the State Education Development Agency regarding implementation of the professional further education and professional improvement education programmes. After opinions provided for several times and discussions the provisions restricting competition were erased from the regulation.

67. In order to defend equal competition positions, the representatives of the Authority in total participated in 65 different events (at ministries, the Saeima, the Cabinet etc.).

## 4. Management of the competition council

### 4.1. State Budget Financing

68. Planned expenses of the reporting year was EUR 1 280 553, performance thereof – 1 259 593 EUR. In 2018, the Competition Council has used 98.36% from the funding provided for the Authority.

Table 3. Type the title here

No.	Financial indicators	Previous year (actual performance)	Reporting year	
			Planned	Actual performance
1.	Financial resources to cover expenditures (total)	1 266 592	1 280 553	1 280 553
1.1.	Grants	1 266 592	1 280 553	1 280 553
1.2.	Chargeable services and other own income			
1.3.	Foreign financial assistance			
1.4.	Donations and gifts			
2.	Expenditures (total)	1 214 867	1 280 553	1 259 593
2.1.	Maintenance costs (total)	1 197 857	1 260 954	1 240 084
2.1.1.	Current expenditure	1 197 857	1 260 954	1 240 084
2.1.2.	Interests expenditure			
2.1.3.	Subsidies, grants and social benefits			
2.1.4.	Contributions to the European Community budget and international cooperation			
2.1.5.	Maintenance cost transfers			
2.2.	Expenditure on capital investments	17 010	19 599	19 509

## 4.2. Personnel

69. The Competition Council consists of a Decision-making body - Council - and an Executive body. The authority had 46 employees at the end of 2018, 40 out of which were in the status of civil servant.

70. There were 50 positions in the list of positions, 45 of which were civil servant positions and six employees' positions.

71. In 2018 the labour turnover of the Competition Council reached 24%. Namely, 11 persons terminated the employment relations, but 13 persons – commenced work.

72. The average age of personnel of the Competition Council at the end of the reporting year was 35.5 years. 83% or 38 employees were women, 17% or 8 employees were male.

73. Considering the specific nature of the institution, the majority of employees have acquired higher education in either Legal or Economic fields. The rest have acquired education in Business Management, Communication Science and other fields. 36 of employees have Master's degree.

74. Number of employees at each position:

- Council of 3 board members
- 1 Executive Director
- 19 investigators
- 12 lawyers
- 2 economists
- 1 Head of Strategical Planning and Development

- 1 Competition Policy Advisor
  - 7 support staff members
75. Human resources applied to:
- Enforcement against anticompetitive practices – 25 (all employees in Legal department, Analytical department and Cartel department). Investigation typically is conducted by a team of one case handler and one lawyer from the Legal Department. In most complex cases a project team of several employees is formed.
  - Merger review – 18 employees in Legal Department and Analytical department. Same employees do both, antitrust and merger review cases.
  - Advocacy efforts – The Authority does not have exact calculation. In 2018, 3 Board members, at least 3 legal counsels focused on advocacy activities. And at least 2 case handlers in parallel with their direct tasks were also actively involved in promoting competition culture and advocacy, as well as two persons from the Communication Division, Adviser on the competition policy and Head of Strategical planning and development.
76. To improve their professional skills, employees of the Competition Council participated in 40 trainings in 2018. Employees were educated on different topics, including about the administrative proceedings, promotion of competitiveness, aspects of anti-corruption and combating of shadow economy in the work of controlling authorities, state administration communication, data protection and analysis.

### 4.3. Improving Performance of the Institution

77. Strengthening of the capacity of the Authority is one of the priority directions in accordance with the Strategy for operation of the Competition Council in 2017 - 2019. Therefore, in order to strengthen capacity of the Competition Council, amendments to the Law On Remuneration of Officials and Employees of State and Local Government Authorities came into force on 1 January 2018, providing possibility to the Authority independently determinate monthly salaries.

78. During the first half a year the Authority in cooperation with Hay Group developed the new labour payment system. The new remuneration system is determined on the basis of job classification methodology “JobMapping™”. The methodology is developed in cooperation with the University of Harvard, is based on standard job models, relative weight of jobs in the organization and ensures internal honesty and external competitiveness of remuneration.

79. Upon using the specific methodology, the job positions of employees of the Competition Council are classified into job levels or salary groups from 12 to 22. There is a set range of monthly salary for each salary group, considering the amount of financial resources approved in the state budget for remuneration of the Authority for each year. The new remuneration system is applied in the Authority since 1 June 2018.

80. The Authority also improved the organizational structure in the middle of the year to improve the operation of the Competition Council and successful performance. In order to strengthen capacity of the Authority for work with regulatory enactments distorting the competition and unjustified activities of public administrative bodies in entrepreneurship, the Competition Promotion Unit was established. The following positions were established

for effective operation: Competition Policy Advisor, Chief Litigation Legal Advisor and Chief Mergers Expert.

81. The Ministry of Economics organized a competition for the position of the Member of the Competition Council in autumn. The Competition Commission proposed Ms Līga Daugaviete as the most appropriate candidate for the position for approval by the Cabinet of Ministers. The Commission highly appreciated the understanding of L. Daugaviete on the competition law, work experience in both, public as well as private sector, analytical skills and managerial experience. L. Daugaviete commenced to perform her work duties on 10 December.

82. In order to strengthen the practice of the Authority for application of competition law and to perform necessary updates, the Competition Council improved or prepared seven materials for internal use in 2018. They include Employee Handbook, summarizing the key questions about the Authority and processes thereof, as well as dawn-raids and seizure of electronic evidence.

## 5. Communication with the public

83. In 2018, the Competition Council in cooperation with the Corruption Prevention and Combating Bureau and Procurement Monitoring Bureau completed the two years long educational cycle of workshops “On Fair entrepreneurship”. The purpose of seminars was to educate two groups - representatives of state and municipalities, the daily work of whom is related to the field of procurements, as well as entrepreneurs, who participate in the procurement procedures.

84. During workshops every involved institution introduced the audience with the issues of their competence in relation to procurements. The Competition Council introduced with the topics of prohibited agreements: 1) what entrepreneurs should pay attention to in communication with competitors, in order not to permit infringement of the Competition Law; 2) how organizers of procurements can identify possible signs of cartels between applicants.

85. In total almost 600 procurement organizers and entrepreneurs were educated during the cycle of workshops “On Fair Entrepreneurship” during two years in 11 cities of Latvia. Majority, 70% of trained persons were procurement organizers.

86. Workshops ended in Riga, in the premises of the Latvian Chamber of Commerce and Industry.

87. In total the Competition Council implemented 33 educational events within a year for different target groups - entrepreneurs and their associations (such as, the security sector, which has appeared in the view of the Authority for several times), procurement organizers, universities, students etc.

88. In 2018, the central topic for the anti-fraud movement implemented by the Ministry of Finance #FraudOff! was dedicated to the employment relations of youth (16 to 24 years). In the movement have joined different public, private and non-governmental organizations, as well as the Competition Council. This year, the Authority drew the attention of youth during several events to the principles of fair competition, in particular informing on cartels.

89. It should be highlighted that in 2018 the Competition Council together with the movement #FraudOff! participated for the first time in the annual conversation festival LAMPA. In order to introduce the target audience and other visitors of the event with the issues of competition law, the Authority prepared the strategic role play “Cartel”. Three types of roles are allocated to participants on the basis of random choice: the fair entrepreneur, cartel member and competition authority. Players, upon substantiating why do they represent the honest part and who could be the unfair participants, have to manage that the team represented by them wins.

90. In 2018, the Authority conducted biennial public opinion survey. The results showed that every tenth questioned Latvian entrepreneur would be ready to deliberately make an agreement with competitors on prices, market etc. or implement any other competition distortion, in order to gain illegal profit, thus making consumers to overpay for goods and services. Also 8% of questioned municipalities showed readiness to support involvement of capital undertakings owned by them in the competition infringement in order to earn additional profit.

91. Respondents admit that the key issues of the competition environment in Latvia are bid-rigging in procurements and competition distortions caused by public administrative bodies. When assessing the Authority, 69% of persons positively assess the activities of the Competition Council. Respondents evaluate the most the fact that it is easy to communicate with the Authority and employees are responsive.

92. In accordance with the survey data, 43% of entrepreneurs know or rather know about the Leniency program. In comparison with the previous years, the level of knowledge of entrepreneurs on this topic has increased, however, in order to facilitate visibility of the program, the Authority prepared Guidelines of the Leniency program in 2018. They summarize explanations on the principles for application thereof and current practice of the Authority.

93. In order to strengthen the practice for application of competition law, the Authority organized the 6h Lawyers Forum in 2018, which has become a platform, where representatives of the Competition Council meet in presence with advocates and lawyers, in order to discuss theoretical and practical issues regarding application and interpretation of provisions of competition law. Besides, the representatives of the Competition Council lead the trainings for judges regarding the international and national legal framework with regards to problematic aspects of damage claims.

94. The Competition Council had 43 meetings with entrepreneurs and associations represented by them, in order to discuss the development of the competition situation and possible problems in several sectors. These sectors include pharmacy, vehicle technical inspection, taxi services and financial services.

95. To ensure reaching and education of the broader part of inhabitants about the competition law, application thereof and current events, the Competition Council commenced to communicate on the social network Facebook at the end of the year.

## 6. Plans for 2019

96. Year 2019 is the last year of performance of the three-years operational strategy of the Competition Council, therefore the Authority will continue to operate in four main directions.

***1st direction. Capacity strengthening, grounding of professional and responsible employees.***

97. Application of competition law becomes more and more complicated each year. In order to assess the compliance of market participants and NGOs represented by them with the basic principles of fair competition in a legally and economically correct manner, in-depth knowledge in many related areas are required: in economics, law, IT, finances etc. Currently the Authority as much as never before needs universal and fair professionals, understanding the dynamic changes in markets and being able to differ, which of them facilitate positive innovations and advantages for society, but which - strengthen the market power of certain players and actually cause negative impact to consumers by reducing the competitive pressure.

98. Therefore, in 2019 the Competition Council will continue to invest in the professional development of employees, will improve the remuneration reform initiated in 2018 and will popularize the image of the Authority as a positive employer.

***2nd direction. Disclosure and prevention of most severe competition infringements and market distortions, non-allowance of negative concentration on the market.***

99. There are two significant issues in the competition area in Latvia: bid-rigging and activities of public administrative bodies creating unequal competition circumstances or discriminating entrepreneurs. In addition to that, the Competition Council identifies and prevents violations of abuse of the market power, which quite often are not easily to be recognized and investigated due to their complicated forms. The Authority has to review even bigger number of mergers of undertakings, in order not to permit concentration of markets adverse for competition, as well as has to perform assessment of different sector policies and has to submit to ministries and other state authorities' proposals on adjustments to legal acts and other documents.

100. Therefore, in 2019 the Competition Council will mercilessly turn against the implementers of the most severe competition infringements and unnotified mergers, as well as will improve the protection of whistleblowers, determining individual responsibility for officials regarding the permitted competition infringements. Besides, the Authority will continue to struggle for expansion of authorities with regards to elimination of competition distortions caused by public administrative bodies.

101. The priority sectors in 2019 are: food retail, financial and insurance sectors, public utilities, pharmacy, wood industry, digital economics and the sector of culture events.

***3rd direction. Creation of understanding of market participants and public administrative bodies regarding free and fair competition, competition politics and culture.***

102. All economic sectors are under supervision of the Competition Council, thus the field of work is broad. Therefore, without support of public and, first of all, entrepreneurs, no authority supervising competition itself is able to change the competition culture and to make the competition environment really beneficial for the private sector. The Competition

Council needs a wide range of allies, including also among other state administration and law enforcement authorities.

103. Therefore, in 2019 the Competition Council will organize and participate in different informative events, in order to educate different target groups on the principles of fair competition. Besides, the Authority will establish in-depth cooperation with organizations and supervising bodies of sectors, where competition issues have already been established (building, construction material trade, pharmacy, energy industry) as well as will popularize the Leniency Program and protection of whistleblowers.

***4th direction. Strengthening of the Authority's role and recognition within the international environment.***

104. For the fourth year the Competition Council keeps high position - three stars in the scale of five stars - on the prestigious Global Competition Review Rating Enforcement among the World's best competition authorities. That gives huge responsibility for the work not only on the national, but also international scale. In addition to that, the Authority is represented in the Bureau of the OECD Competition Committee since 2019. That gives the Authority broader possibilities to influence the agenda internationally on competition protection issues. Authority will pay attention also to the most characteristic trends and competition problems in the Baltic States region.

105. Therefore, in 2019 the Competition Council will continue to give a significant contribution to collection of the competition idea and practice on the international scale, by cooperating with international organizations and networks, will strengthen cooperation with the competition authorities of the Baltic States and Northern Countries, as well as will support the competition authorities, being on the way to market economy and free competition (Ukraine, Georgia etc.).