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**Global Forum on Competition**

**Competition in the Food Supply Chain – Contribution from Latvia**

**- Session IV -**

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This contribution is submitted by Latvia under Session IV of the Global Forum on Competition to be held on 2-3 December 2024.

More documentation related to this discussion can be found at: [oe.cd/gfc24](https://oe.cd/gfc24).

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## *Competition in the Food Supply Chain*

### *- Contribution from Latvia -*

#### **Retail and Food Industry in Latvia**

1. Since 2021, 12 retail chains have been operating on the territory of Latvia in the market for non-specialized stores selling primarily food, beverages, and tobacco (NACE 47.11). These retail chains occupies for approximately 95% of the market share, with the remaining 5% occupied by independent retail stores. These chains often include procurement groups where independently owned stores operate under a single brand with shared promotional campaigns and joint purchasing activities.

2. The Herfindahl-Hirschman Index (HHI), a measure of market concentration, exceeded 1800 in Latvia's daily consumer goods retail market during 2018-2021, indicating a highly concentrated structure where leading market players set the rules. However, in 2022, the HHI dropped below 1800 for the first time, signaling a shift toward a moderately concentrated market and potentially increased competition. This change coincided with the entry of a new player, Lidl. By 2023, the two largest market players, Rimi and Maxima, each held a 28% market share, while Lidl had a 12% share.

3. Latvia's food production sector plays a significant role in the economy, as evidenced by import and export data. In 2023, agricultural and food product imports constituted 19% of total imports, while exports accounted for 22%. The added value generated across the food industry supply chain highlights the sector's economic importance:

- **Food Production:** Representing 2.6% of added value, this segment includes agriculture, processing, and manufacturing, forming the foundation of the supply chain.
- **Wholesale:** Contributing 6.3% to added value, wholesalers facilitate the distribution and logistics of food products from producers to retailers.
- **Retail:** Accounting for 5.7% of added value, retail businesses engage directly with consumers, influencing prices, consumer behavior, and supply chain logistics.

#### **1. Consumer Behavior and Market Observations**

4. Surveys conducted by the Latvian Competition Council reveal the following consumer habits:

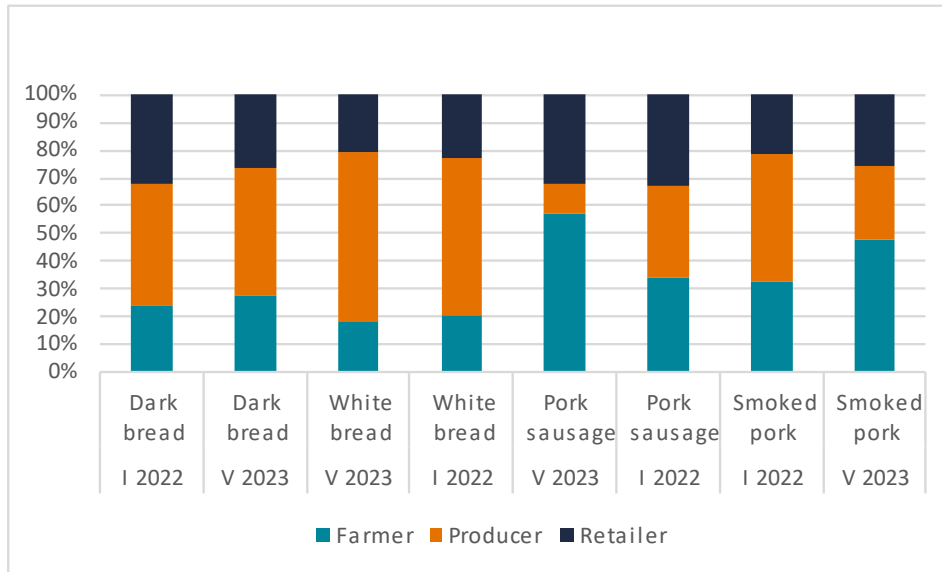
- Over one-third of consumers prioritize the country of origin when selecting products.
- Approximately 44% of consumers research promotional offers across stores before shopping, and 59% compare basket prices in different e-stores.
- A majority believe competition exists in the retail sector, with 37% convinced of its presence and an additional 33% acknowledging it to some degree.

## 2. Key Findings from Market Surveillance

5. Recent market studies conducted by the Latvian Competition Council have identified the following trends and challenges:

- **Unequal Standards for Egg Production:** Latvian egg producers face stricter welfare standards compared to those in other countries, increasing costs and reducing international competitiveness.
- **Impact of Global Markets:** Being a small trade partner, Latvia's food industry is directly influenced by global market dynamics. For example, the grain and rapeseed sectors are primarily export-oriented.
- **Uncovered Costs in the Supply Chain:** From data CC requested from 28 retailers and 40 manufacturers/suppliers from within and outside Latvia. In total, more than 100 000 pieces of data from the first round and more than 70 000 from the second round have been analysed and CC found out that for certain products in categories like milk, eggs, bread, grains, fish, and meat, resale prices fail to cover production and distribution costs across the supply chain.
- **Promotional Pricing Issues:** In categories with long shelf lives, such as water, soft drinks, and light beer, up to 80-90% of sales occur at promotional prices. These promotions impose extra costs on suppliers, which are eventually reflected in higher regular prices.
- **Cross-Subsidization:** Retailers engage in cross-subsidization by imposing lower markups on some products while applying higher markups on others to balance overall costs.
- **Barriers to Market Entry:** Despite relatively few regulatory obstacles, challenges like limited store locations, particularly in capital city - Riga, hinder new entrants, restricting small and medium enterprises from establishing competitive structures.
- **Markup Variations:** Local products often bear higher markups compared to similar imported goods in one-third of retail chains.
- **Independent Pricing Strategies:** In market surveillance was analyzed the variability and rigidity of prices for 10 identical products across 5 retail chains. To analyze price variability, CC employed the Cuddy Della Valle index, a modification of the coefficient of variation that accounts for the observed trend in the data, the fixed price period in weeks was used to analyze price rigidity. CC find that that store chains are highly independent in their actions and thus have buyer power over product manufacturers and suppliers.
- **Price Disparities:** Significant differences in prices for comparable products are observed across daily consumer retail chains.
- **Significant part of final price in retail level:** significant part of the final price of concrete food products is formed at the retail level

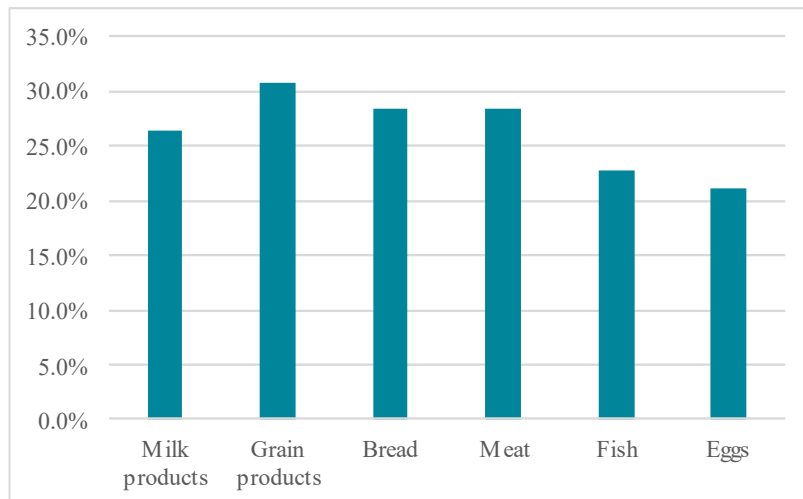
Figure 2.1. Share of price for each level of the supply chain in 2022 until May 2023



Note: In this figure, calculations have been made as follows: retailer’s share = (Retail price – Producer price)/retail price, producer’s share = (Producer price – Farmer price)/retail price, farmer’s share = Farmer price/retail price.

6. **Average retail mark-up up to 31%:** the average price margins for selected food product groups in retail is between 20% and 31%.

Figure 2.2. Retail price margins in selected food product groups in 2022 until May 2023



Note: This figure shows the average retail price margins in 2022 till May 2023 for selected food product categories. Product-level price margin is calculated by dividing the difference between the retail price and the wholesale price by the retail price.

7. **Price development by product groups (farmers, producers, traders) differs:** As part of the analysis, the CC examined the cost structure of the food supply chain, from farmers to retailers, thus explaining the price structure to the public. CC identified where in the supply chain cost increases or reductions were fairly distributed and highlighted where practices were less equitable. The CC concluded that for most of the products

concerned there was price transmission, but that there were also cases where price reductions by the farmer, either at the manufacturer or retailer stage, were absorbed and not passed on to final consumers, while there were also situations where the manufacturer suffered losses on resale and thus offset each other.

### 3. Sales Channels for Farmers

8. Latvian farmers have multiple options for selling their products:
  - **Direct Sales to Consumers:** Farmers can sell their produce directly to consumers through farmers' shops, farmers' markets, online platforms, crowdsale online platforms
  - **Sales to Cooperatives:** Many farmers join cooperatives to collectively sell their products.
  - **Wholesale and Retail Channels:** Direct sales to wholesalers or retailers.
  - **Sales to Food Processors:** Contracts with food processors to supply bulk products.
9. Farmers can decide whether to sell immediately or store their products for later sale, depending on the perishability of the goods. For instance, highly perishable items are sold promptly, while storable items like potatoes and carrots are often retained for future sales.

### 4. Logistics and Retail Practices

10. Some Latvian retailers have adopted “just-in-time” logistics for local suppliers, requiring more frequent and complex deliveries. This shift increases costs for suppliers, who must adapt to stricter packaging and delivery requirements.

### 5. Unfair Trade Practices Regulation

11. The existing national regulation of unfair trade practices in the agricultural and food supply chain in Latvia is based on the Directive (EU) 2019/633 of the European Parliament and the Council of April 17, 2019 on unfair trade practices in business-to-business relations in the agricultural and food supply chain. The Unfair Trade Practices Directive provides for the minimum level of harmonization with regard to prohibited unfair trade practices in all EU member states, and it has been transposed into national legislation with the Unfair Trade Practices Prohibition Law (UTPPL) of Latvia, which entered into force on 01.11.2021.

12. The UTPPL defines a list of actions that are prohibited at all times (black list), even if the supplier agrees to them, and a list of actions that are prohibited only if the parties have not clearly agreed on them in advance (gray list). It is applied if the buyer's turnover exceeds 2 million euros.

13. In addition, it should be noted that before the entry into force of UTPPL, Latvia already had its own retail prohibition law, which was in force since 2016 and imposed prohibition only on the last stage of the supply chain - retailers. Due to the fact that a list of prohibited practices had already been prepared in Latvia, when transposing the Directive into national legislation, Latvia also retained the specific prohibited practices, e.g.,

- Prohibiting buyers from rejecting goods with at least two-thirds of their shelf life remaining.
- Mandating payment within 20 days for fresh fruits and vegetables supplied three times a week.