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Competition in the Healthcare Sector – Contribution from Estonia

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More documentation related to this discussion can be found at: oe.cd/chthc.

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Competition in the Estonian Healthcare Sector

1. Introduction

1. In recent years, the Estonian Competition Authority (ECA) has conducted several analyses of Estonia's healthcare sector in order to identify structural problems, assess the impact of regulations, and provide concrete recommendations to foster competition.¹

2. This contribution provides an overview of the ECA's key findings and recommendations. It covers the ECA's 2021 opinion on hospital pharmacy import rights, a 2024 analysis of the 2020 pharmacy reform's consequences, and a 2024 short analysis of the orthodontic services market. It concludes with a 2025 response from the Ministry of Social Affairs to the topics raised. These analyses consistently highlight structural and regulatory challenges that concentrate market power and restrict supply across key areas of the healthcare sector. These challenges are complex and would require cooperation by several authorities to be remedied, especially when they originate at a regulatory level or where traditional competition tools fall short.

2. The 2021 Opinion on Hospital Pharmacy Import Rights

3. In December 2021, the ECA provided a formal opinion to the social affairs committee of the Estonian Parliament concerning a draft amendment to the Medicinal Products Act. The context for this opinion was a long-standing discussion about the dependence of Estonian hospitals on a small number of domestic pharmaceutical wholesalers and the potential in granting hospitals the right to import medicines themselves. As it stood, the draft did not grant hospital pharmacies the right to import either licensed or unlicensed medicines which they would have to get from the Estonian pharmaceutical wholesale market.

4. The opinion highlighted the high concentration of the Estonian pharmaceutical wholesale market. It noted that despite a ban on the integration of general pharmacies and wholesale distributors that came into force on the 1st of April 2020, there has been no significant reduction in the market power of large wholesalers. In 2020, three major wholesalers controlled 81% of the market. With one of these three exiting, the market leader's share was projected to grow to approximately 50%. The analysis noted that hospital pharmacies are a significant market segment for wholesale distributors, accounting for 107.1 million euros, or 30%, of the overall market.

5. The ECA's opinion concluded that an effective measure to improve competition would be to consider granting import rights for hospital pharmacies and to include *all* medicines - those with and without authorization. This would allow hospitals to source pharmaceuticals directly from producers or other EU wholesalers, creating an opportunity to acquire medicines at a lower cost and exerting downward price pressure on domestic wholesalers.

¹ These analyses can be found on the ECA's website, [here](#).

3. The 2024 Analysis of the Pharmacy Reform's Aftermath

6. In January 2024, the ECA published an analysis of the consequences of the 2020 pharmacy reform. The reform's stated goals were to establish pharmacist-owned pharmacies and to end the vertical integration between pharmaceutical wholesalers and retail pharmacies, with a deadline for compliance of April 1, 2020. The ECA's analysis sought to determine if the reform had successfully created a market of independent, pharmacist-owned pharmacies and whether there are factors that enable or restrict this change.

7. The analysis evaluated several elements of the post-reform market. It found that while *de jure* ownership had been transferred to pharmacists, *de facto* control and economic dependency on major wholesalers remained largely intact. Wholesalers maintain influence through a web of contractual and economic ties. A majority of pharmacies operate under franchise agreements with one of four major brands (Apotheka, Benu, Südameapteek, Euroapteek), which are all linked to dominant wholesalers.

8. The analysis found that wholesaler-related entities often control the leases for the most commercially viable pharmacy locations, such as in shopping centres or medical facilities. These leases are then sub-let to pharmacist-owners, with the sub-lease agreements often explicitly tied to the duration and fulfillment of the franchise contract.

9. Furthermore, the ECA found that pharmacies procure the vast majority of their goods - on average, 88% for franchise pharmacies and 81% for non-franchise pharmacies - from a single "home" wholesaler. This practice is reinforced by integrated IT ordering systems and rebate/bonus structures that discourage purchasing from competing wholesalers. The ECA found that "new" pharmacies established after 2020 operated on significantly lower profit margins than "old" pre-reform pharmacies. This combined with other regulatory mechanisms on pricing could enable profits to be extracted from the retail level and shifted to the wholesale/franchisor level. Paradoxically, the wholesale market had become even more concentrated since the reform, with the top two wholesalers' combined market share exceeding 80%.

10. The analysis concluded that the reform had largely failed in its objective to create genuinely independent pharmacies. Based on these findings, the ECA recommended several measures. These included suggestions to prohibit the tying of essential resources, like real estate leases and IT systems, to franchise agreements. Other recommendations involved ensuring management independence for pharmacies by, for example, restricting individuals from serving on the boards of both pharmacies and wholesalers simultaneously. The ECA also proposed mandating "open" IT ordering systems that would allow for transparent price comparison and procurement from all licensed wholesalers.

4. The 2024 Short Analysis of Orthodontic Services

11. In July 2024, the ECA published a short analysis of the orthodontic services market, which, with the exception of some State-funded services for children under 19, operates as a free-market service. The analysis was initiated following public media coverage and stakeholder discussions regarding long waiting times and access problems. The purpose was to identify potential competition problems and, if necessary, provide recommendations.

12. The analysis gathered publicly available data on market supply and demand. It found that while the number of patients seeking orthodontic services grew significantly between 2011 and 2018 (more than doubling), the number of practicing orthodontists had remained largely static for the last decade, at approximately 60-66 registered professionals. Furthermore, a significant number of practicing orthodontists work part-time. The total workload equates to only 37-38 full-time professionals, according to ECA estimates. This was seen as a chronic undersupply. The primary consequence of this supply-demand imbalance, is the inaccessibility of the service. The ECA conducted its own practical tests, which confirmed that waiting times for an initial consultation are commonly one to two years, with a significant number of clinics not accepting new patients at all or unable to provide an initial timeslot.

13. The ECA's analysis identified the primary barrier to entry for new suppliers. The University of Tartu is the sole institution in Estonia that trains orthodontists, and the number of residency spots is limited by the State. The ECA found that the Estonian Orthodontists' Society, an association representing active market participants, has historically played a strong role in drafting the field's strategic development plans. The ECA pointed to a potential conflict of interest when an economic interest group has an outsized influence on the strategic management of the sector, especially regarding the market entry and number of new competitors.

14. The ECA concluded that the orthodontic market is experiencing a severe market failure that requires intervention to increase the supply of providers. The recommendations issued in the analysis included: first, to significantly increase the number of residency spots for orthodontists at university. Second, to consider expanding the scope of practice for dentists, following additional training, to allow them to perform simpler, more common orthodontic procedures, a practice which is common in many other EU countries. Third, to ensure the strategic management of the sector is balanced and transparent, to better separate expert opinion from the economic interests of incumbent market participants.

5. Conclusion

15. These analyses identify several areas of concern in Estonia's healthcare sector and provided recommendations. Since then, these areas have seen heightened interest by the public and authorities alike, with some stakeholders taking steps to address these issues. In a February 2025 response to a ECA request for information, the Ministry of Social Affairs provided an overview of its activities tackling the challenges raised by the ECA.

16. The Ministry's response confirmed that a draft act granting hospital pharmacies import rights for medicines was pending in Parliament. On the pharmacy reform's aftermath analysis, the Ministry stated that current law already requires wholesalers to provide equal terms, and that developing a new - potentially State-run IT system - was not a priority.

17. Regarding the orthodontic services market, the response detailed several ongoing activities including the expanded use of e-consultations, initiatives to assist providers in managing waiting lists and improving transparency. The Ministry also noted that the University of Tartu had created new optional courses for dentists in preventative orthodontics, and that five new orthodontists were set to graduate in the current year, with four new residents accepted the previous year.

18. While not all recommendations were addressed or implemented, the ECA sees encouraging developments and looks forward to working together with relevant stakeholders on present or future challenges in the healthcare sector.