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Global Forum on Competition

Competition in the Healthcare Sector – Contribution from Latvia

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This contribution is submitted by Latvia under Session II of the Global Forum on Competition to be held to be held on 1-2 December 2025.

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

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Part 1. Competition Conditions and Risks in Healthcare Services in Latvia

1. Background and Scope

1. The Latvian Competition Council (CC) conducted market surveillance in 2023–2025 to analyse competition conditions in the provision of state-funded **secondary outpatient care** and **inpatient healthcare** services. The surveillance focused primarily on public sector healthcare institutions (state and municipal capital companies) to identify competition neutrality risks. Healthcare is a strategic service in Latvia, and the state is responsible for ensuring its accessibility and quality. The CC's central hypothesis was that competition risks arise from systemic deficiencies in public support and the endemic inadequacy of National Health Service (NHS) tariffs to cover actual service costs, leading to an over-reliance on the paid service segment for budget balancing.

2. Key Findings: Structural and Systemic Risks

2. The surveillance **did not confirm** a general distortion of competition in the form of harmful cross-subsidisation or predatory pricing (**dumping**) by public sector institutions. However, it identified significant **systemic (structural) risks** that compromise fair competition and equal access:

- **Inadequate NHS Tariffs and Cross-Subsidisation Risk:** NHS tariffs for state-funded services often **do not cover the actual costs** of service provision. This financial gap forces public sector providers to rely on the **paid service segment** to cover shortfalls and ensure the overall economic viability and continued provision of loss-making, strategically important state-funded services. Consequently, citizens paying privately effectively **subsidise** the actual costs resulting from NHS tariff inadequacy. This creates a powerful financial incentive for all providers to prioritise paid services, leading to longer queues for state-funded care.
- **Asymmetry in Public Support and Infrastructure Use:** Historically, access to significant public financing (e.g., state budget investments, loans, and past EU structural funds) has been available predominantly to **public sector institutions**. This asymmetry, particularly when combined with the practice of providing premises for use **free of charge**, creates a potential long-term risk to competition neutrality. This risk materialises if clear cost separation and proportionality calculations (usage for state-funded vs. paid services) for this infrastructure are not rigorously and transparently controlled by support providers.
- **Pricing and Human Resources:** Analysis of price components showed that the main factor driving the price difference between NHS-funded and paid services is the **labour cost** component, followed by the **profit margin** in the paid segment.

This suggests that the current NHS tariffs are fundamentally inadequate in securing competitive remuneration for highly qualified personnel.

3. Key Proposals for Systemic Improvement

3. To address these structural risks and foster a fairer market, the CC made the following recommendations, focusing on systemic, policy-level changes:

- **Tariff Reform and Development Component:** The Ministry of Health and NHS must take necessary steps to ensure healthcare service tariffs adequately cover costs. The CC explicitly proposes revising the NHS tariff calculation formula to include a dedicated "**State-Funded Service Development**" component. This component should be equally accessible to **all** providers (public and private) of state-funded services, systemically promoting long-term development (including digital capacity/AI) and reducing the reliance on *ad hoc* public support.
- **Equal Access to Financing:** Ensure **equal conditions for accessing future EU and Recovery Fund financing** for all healthcare providers (public and private) who are involved in providing state-funded services, focusing on the public interest served.
- **Cost Separation and Control:** Support providers must strictly ensure that recipients of public support implement clear methodologies for calculating and applying the **infrastructure use proportion** for state-funded versus paid services. Public sector institutions must also implement a **clear methodology for pricing paid services** to prevent setting unjustifiably low prices.
- **Optimise Selection and Access:** The NHS should evaluate the possibility of **grouping related services into single lots** in selection procedures to encourage more consistent participation across less and more profitable service types. Furthermore, the selection criteria should focus on **qualitative, results-oriented indicators**, rather than solely on quantitative ones, while continuing systemic work on **efficient patient queue management**.

Part. 2 Competition in the Pharmaceutical Market

1. Latvia's pharmaceutical market, vertical integration and lessons learned

4. Latvia's pharmaceutical sector has undergone significant changes, characterized by increased market concentration and the expansion of vertically integrated chains in the retail pharmacy segment. While the sector has achieved notable progress in addressing regulatory and systemic challenges, persistent issues remain related to competition, patient access, and the availability and affordability of medicines.

5. This contribution provides a brief overview of Latvia's experience in monitoring the pharmaceutical market, with particular attention to the impact of vertical integration and market concentration.

2. Vertical integration in Latvia

6. The pharmaceutical industry in Latvia is characterized by diverse structure, with varying degrees of vertical integration depending on company size, business model, and strategic orientation. According to regulatory data, the sector includes dozens of licensed manufacturers, wholesalers, and several hundred retail pharmacies. Despite this diversity, the share of locally produced medicines remains relatively small, accounting for only about 5% of total turnover in recent years.

7. Given the limited role of domestic production, the most significant dynamics of vertical integration occur at wholesale and retail levels. A small number of vertically integrated groups dominate the market by operating simultaneously as wholesalers and pharmacy chains. These groups collectively control majority of the market.

8. Overall, Latvia's pharmaceutical market demonstrates a clear pattern of concentration and vertical integration. While manufacturing remains fragmented and relatively marginal in terms of domestic output, the wholesale and retail levels are increasingly dominated by few integrated groups.

9. A long-standing pattern of serial acquisitions has created significant competition risks at local levels, potentially reducing consumer choice, which the Latvian Competition Council (henceforth – CC) actively monitors and seeks to mitigate through market monitoring, advocacy and recently merger control.

10. Same as in other countries Latvian pharmaceutical market operates under a complex regulatory framework which regulates such things as medicine manufacturer, wholesaler, pharmacy operations, pricing and reimbursement, advertising product authorization etc. to ensure quality safety and public access to medicines.

3. Regulatory controls on vertical integration

11. CC views the pharmaceutical value chain as a critical area requiring proactive competition enforcement and strong regulatory advocacy.

12. Vertical integration between wholesalers and pharmacies can strengthen market power, limit competition and incentivize the distribution of more expensive medicines. Risks include preferential supply to integrated pharmacy networks and potential exclusion

of independent competitors. However, a series of regulatory mechanisms has been introduced to mitigate these effects. To mitigate these effects, a series of regulatory mechanisms has been introduced, including price regulation and rules on medicine pricing, which reduce opportunities for coordinated pricing and limit incentives to prioritize higher-priced medicines; supply obligations, under which wholesalers and manufacturers are legally required to ensure continuous and timely supply to all licensed pharmacies, including urgent delivery requirements for reimbursable medicines; transparency of stock levels, whereby since 2020 wholesalers must provide public information on available medicine stocks, reducing the risk of artificial shortages or preferential supply to integrated networks; and prescription rules, which require prescriptions to indicate only active substances rather than brand names, among other safeguards.

13. Overall, in theory, vertical integration poses risks of market foreclosure and higher prices. Latvia's regulatory framework acts as a counterbalance. Furthermore competition regulation and pharmaceutical regulation often have different primary objectives, which can create areas of tension and mutual influence - while the main objective of pharmaceutical regulation is to protect public health by ensuring that all medicines on the market are safe, effective and high quality but other goals are to protect consumer welfare by ensuring markets are open, competitive and efficient.

14. Because of these complexities, certain risks or unintended consequences may be overlooked within regulatory framework. In such cases, the CC plays crucial role by identifying potential gaps, highlighting emerging risks, and providing recommendations to policymakers. Its oversight ensures that competition concerns are not overshadowed by purely pharmaceutical objectives, and that the broader functioning of the market remains under scrutiny.

15. For example, historically, the medicine pricing markup mechanism in Latvia has been disproportionately affecting more expensive medicines, leading to consumer prices that often were higher than neighboring countries. This issue was identified by Competition Council in 2019. In response to those findings and Competition Council advocacy work regarding pharmaceutical markets as of January 1. 2025, new pricing policy is set to reduce prices of prescription medicines and better align their prices with neighboring countries. While the reform is expected to lower patient costs, it may also further harmonize retail pricing and reduce the scope for price competition in the prescription medicine segment.

16. Furthermore, the CC has refined its analytical approach to local competition by reassessing how relevant geographic market for retail pharmacies should be defined. Historically relying on broad geographic units, the CC has acknowledged that modern consumer habits and logistics necessitate defining market boundaries more precisely, potentially narrower or broader than a single city, to accurately reflect competitive conditions for consumers.

4. Lessons from the AB City/Olainfarm merger

17. The AB City acquisition of Olainfarm serves as example of the CC's commitment to applying structural remedies in the pharmaceutical retail market. The CC permitted the merger in 2022, but only under strict, binding conditions. To mitigate the risk of significantly restricted competition in the local pharmacy markets, CC mandated a structural remedy: divestiture of Olainfarm pharmacy network, to unrelated third party. Requirement ensured that the concentration of market power was prevented in specific local geographical areas.

18. Leveraging its expertise and prior experience in pharmaceutical markets, CC identified concentration risks at an early stage. The merging parties agreed to divestiture before the merger notification was deemed complete which allowed CC to focus its subsequent, more detailed analysis exclusively on the potential risks of vertical integration. This case set an important precedent for applying structural remedies in Latvia's retail pharmacy markets.

19. CC concluded that due to existing administrative barriers (geographic and demographic restrictions), potential competition in the retail pharmaceutical market (especially in major cities) is significantly limited or excluded. Furthermore, due to current Latvian regulations, a situation has developed, where multiple pharmacies belonging to the same undertaking tend to concentrate in specific locations within cities and settlements. This has resulted in some settlements having significant number, or even 100%, of pharmacies to be controlled by one single entity.

5. Potential risks of vertical integration, conclusions of market surveillance.

20. Vertical integration – specifically the combined ownership of pharmaceutical wholesalers and retail pharmacies is a prevailing structural feature of the Latvian market and poses the most significant competition risk to non-integrated rivals and consumers. Such structures can create incentives to prioritize the integrated retail network, creating potential barriers for upstream manufacturers and downstream competitors. The four largest integrated undertakings account for around 70% - 80% of retail market share, 60-70% wholesale market share and their influence continues to expand. Between 2020 and 2024, the number of independent pharmacies continue to decrease, while integrated chains expanded primarily through a series of acquisitions.

21. One of the key challenges in Latvia's pharmaceutical sector arises from the inability the CC to review mergers falling below national notification thresholds. A series of such sub-threshold acquisitions has contributed to increased market concentration, particularly in local pharmacy markets, while remaining outside the scope of merger control. At present, the CC has the possibility to exercise a "call-in" right to retrospectively assess transactions that pose a genuine risk to competition, despite their size. This mechanism provides an important safeguard, enabling the authority to intervene in cases where serial or local acquisitions may cumulatively restrict competition.

22. CC's ongoing Market Surveillance into the impact of vertical integration on pharmaceutical retail shows that vertical integration can improve supply stability and operational efficiency, data shows that vertically integrated entity can also offer substantially reduced prices to OTC medicines as non-integrated counterparts.

23. Analysis of regulatory acts also indicates that vertical integration is also limited by regulatory acts for example with obligations to continuous supply and public service requirements which in theory limits the ability of vertically integrated wholesalers to prioritize own retail networks where refusal to supply medicines is violation of regulatory law. Also, restrictions on advertising and promotion, restrictions on using brand names when prescribing medicine, obligations to report daily information about quantity of medicine available in wholesaler warehouses etc.

24. Despite strict regulations, market structure and obtained data, in the opinion of the CC, it shows that there are high risks of market foreclosure and reduced retail competition. Integrated entities may enjoy preferential access to wholesale supply, enabling them to negotiate more favorable terms, while independent pharmacies face limited bargaining

power and higher operational constraints. Analysis suggests that these structural trends limit consumer choice and can impact it further in future.

25. CC keeps emphasizing the strategic importance of enhancing competition at the retail level. A more open and diverse retail landscape would help balance the market power of bigger vertically integrated undertakings and promote healthier price competition. Because as shown before, competition at retail level is hindered even between vertically integrated undertakings.

26. Policy measures supporting independent pharmacies access to wholesale distribution, reducing administrative barriers to entry and revising geographic and demographic licensing criteria could encourage market entry and mitigate future concentration risks.

27. Also, CC compared prices between online and physical retail pharmacy OTC medicine prices and noticed that some popular OTC medicine prices were noticeably cheaper than corresponding retail pharmacy price. These findings indicate that online pharmacies operate under stronger price competition while physical pharmacies exhibit less dynamic pricing behavior. Observed price gaps and behavioral patterns suggest a clear contrast in competitive intensity between two segments especially counting, that online pharmacies are tied to physical pharmacy licenses and it is not possible to operate online pharmacy without physical one.

28. In essence, competition appears stronger in segment, where consumers can easily compare prices Promoting the development of online channels within fair and transparent regulatory environment could help offset limited competitive pressure observed in the traditional retail segment.

6. Challenges and recommendations

29. Latvia's experience demonstrates that vertical integration in a small and highly regulated market can amplify the effects of concentration and reduce effective competition if not properly monitored. While in the short-term consumers apparently receive benefits from lower prices for OTC medicines from vertically integrated structures, data show that improvement of competition in retail level could make improvements in wholesale level and lead to further price decreases.

30. The CC's market study identified several persistent challenges in Latvia's pharmaceutical sector, including high administrative and economic entry barriers that deter new participants from entering both wholesale and retail markets, geographic and demographic restrictions on opening pharmacies that limit local competition, growing consolidation trends that reduce the diversity of market players and reinforce the position of larger entities, and retail-level concentration that can impede competition at the wholesale level.

31. To address these challenges, the CC will continue strengthening its analytical capacity for assessing vertical integration within merger and market monitoring frameworks, promoting policy reforms that encourage independent market participation at the retail level, and working closely with partners and sector regulators to ensure positive changes that enhance competition in pharmaceutical markets.

7. Conclusion

32. In conclusion CC emphasizes that while vertical integration in the pharmaceutical sector can yield efficiency gains, its long-term impact on market structure and retail competition requires careful oversight. The increasing concentration among vertically integrated groups and the declining number of independent pharmacies highlight the need for proactive competition policy interventions.

33. Ensuring a balanced coexistence of vertically integrated and independent market players remains a key policy challenge. A more balanced market, where independent pharmacies can compete effectively with vertically integrated entities, would strengthen competitive pressures, promote innovation and improve patient access and affordability of medicines.