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Assessing the Impact of Competition Authorities' Activities – Note by Latvia

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1. Introduction

1. This document by the Latvian Competition Council (hereinafter – the CC) analyses the methodology for calculating public benefit, its development, and main trends since 2013. It also includes concrete examples from the CC’s market monitoring activities and proposals for legislative improvements. The conclusion presents findings and recommendations that help to identify key areas for evaluating public benefit and improving the applied methodology.

2. Methodology, historical development, and Public Benefit Trends

2. The CC calculates the direct financial benefit to society in order to quantitatively assess the effectiveness of public funds allocated to the institution. These calculations also help determine the CC’s future strategic priorities. Since 2016, compiled public benefit data have been regularly published in the CC’s annual reports.

3. The CC has developed its own methodology¹ for calculating public benefit, based on the recommendations of the Organization for Economic Co-operation and Development (OECD). It has been supplemented by the experience of the European Commission and competition authorities of other EU member states. The methodology is adapted to the specifics of the Latvian economy and ensures a quantitative assessment of the impact of competition.

4. The public benefit assessment primarily encompasses three domains of CC activities: merger control, collusive agreements, and abuse of a dominant position.

5. In accordance with OECD recommendations, the following price increase prevention rates are applied in public benefit calculations: 3% for merger control cases, 10% for prohibited agreements, and 5% for abuse of dominant position. The 5% rate is also applied in cases involving unfair trading practices. The impact period is set as two years for mergers and abuse of dominance cases, and one year for prohibited agreements. Financial amounts are discounted using a standardized 5% discount rate.

6. The CC also considers the effects of *soft enforcement* activities, such as warnings issued, and negotiation procedures conducted by the CC. This impact is not discounted, and a benefit rate of 0.5% is applied, following proportionality principles.

7. The methodology also accounts for positive effects from market monitoring activities and from the CC’s recommendations for amendments to legislation, including both newly developed and existing regulatory acts. These effects are assessed on an *ad hoc* basis.

8. If specific information becomes available during the investigation, it is used for a more accurate estimation of the impact. If such information is not available, default

¹ Methodology for Quantitative Assessment of Public Benefit from the Implementation of Competition Policy, https://www.kp.gov.lv/sites/kp/files/media_file/2023_si_metodika.pdf (in Latvian)

assumptions are applied, which largely correspond to OECD methodological recommendations.

9. Since the methodology was officially introduced in 2016, minor adjustments have been made. In 2023, a more significant update was carried out, whereby the CC began to include the turnover of all affected markets in the merger block, rather than just the turnover of the merging parties. Additionally, the prevented price increase rate was raised from 2% to 3%, in line with OECD and European Commission recommendations. Since 2023, the public benefit calculations have also included Phase II mergers that were withdrawn without a clearly identified alternative reason, assuming that the CC's intervention prevented excessive market power concentration.

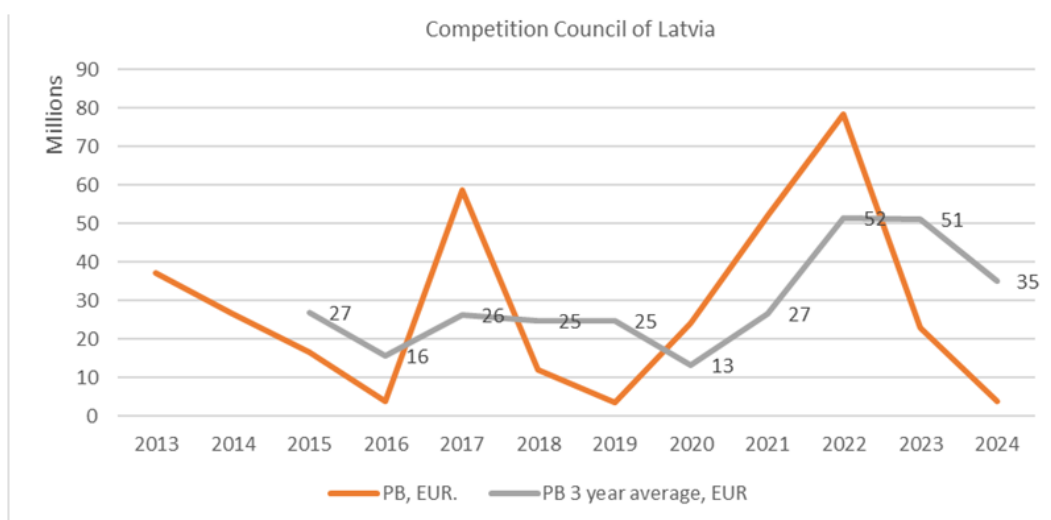
10. The methodology has not been formally challenged; however, there has been interest from the media and experts regarding the assumptions used. The results of the public benefit assessment are used in the CC's annual public reports and in communication with the Ministry of Economics and the Ministry of Finance in the context of budget discussions.

11. Due to limited resources, the CC rarely conducts *ex post* evaluations. The last such evaluation was carried out in 2018 in the wheat and rye flour market. In the future, selected *ex post* evaluations are planned, provided that additional resources are allocated for this purpose.

12. Since 2016, the CC has systematically calculated public benefit resulting from decisions adopted in competition law infringement cases. The amount of public benefit can vary significantly from year to year, as the complexity and duration of cases differ, and decisions are often made only after several years of investigation.

13. To reduce these fluctuations and better reflect the institution's impact, a three-year average of public benefit is used. This helps smooth out annual variations resulting from differing case cycles and allows for the monitoring of long-term effectiveness and consistency in competition enforcement. Moreover, following high-profile and widely publicized cases, a decrease in the number of violations is often observed — companies become more cautious, which suggests that the deterrent effect reduces the need for repeated interventions. However, such benefits are not directly captured in numerical indicators.

Figure 1. Development of Public Benefit



3. Ad hoc Public Benefit Assessment in the Case of Regulatory Amendments

14. Although the methodology provides for an assessment of public benefit from market monitoring and regulatory changes under the soft enforcement section, until now the CC has not quantitatively evaluated such benefits. However, in 2025, the CC plans to assess public benefit from two significant policy improvements: amendments to the Unfair Trading Practices Prohibition Law (UTPPL)² and pharmaceutical price regulation³.

15. This section focuses on the UTPPL example. The 2025 amendments are directly based on the results of the CC's market surveillance of the food supply market conducted in 2022–2023⁴. The surveillance identified discriminatory pricing practices against local producers, inconsistent application of product assortment lists, and unequal contract terms. Following the surveillance, the CC's conclusions and recommendations were included in the legislative amendments.

16. It should be noted that the methodology, data, and calculations presented below do not represent the final version of the public benefit assessment from the UTPPL amendments but rather serve as a “pilot project” to be tested, including based on conclusions from the OECD roundtable.

17. To assess the public benefit of these amendments, the CC will apply the OECD *Competition Assessment Toolkit* methodology (2019)⁵ (hereinafter – Toolkit), which proposes a formula to estimate the expected consumer benefit (or harm), taking into account demand elasticity:

$$CB_s = (\rho + \frac{1}{2} \times |\varepsilon| \times \rho^2) \times R$$

Where:

- a. CB_s – expected consumer benefit,
- b. ρ – price change resulting from the reform,
- c. ε – absolute value of price elasticity of demand,
- d. R – affected market turnover.

18. Unlike the simple “turnover × price change × duration” approach, this formula also considers that consumers respond to price reductions by increasing consumption — that is, there is also a so-called consumption expansion benefit.

19. The methodology offered in the Toolkit bases the public benefit calculation on three key parameters: price change (ρ), demand elasticity (ε), and affected turnover (R).

² Explanatory Note [on](https://tapportals.mk.gov.lv/annotation/b8522a4c-689e-47da-9a8f-c250c3d48827) the Amendments to the Unfair Trading Practices Prohibition Law, <https://tapportals.mk.gov.lv/annotation/b8522a4c-689e-47da-9a8f-c250c3d48827> (in Latvian)

³ Amendments to [Cabinet](https://www.vestnesis.lv/op/2024/141.11) Regulation No. 803 ‘Regulations on the Principles of Medicinal Product Pricing, <https://www.vestnesis.lv/op/2024/141.11> (in Latvian)

⁴ Retail Market Surveillance of Eggs, Fish, Dairy, Meat, Grain and Bread Products (in Latvian), <https://www.kp.gov.lv/lv/media/11577/download?attachment> , <https://www.kp.gov.lv/lv/media/11691/download?attachment> , <https://www.kp.gov.lv/lv/media/12174/download?attachment>

⁵ Competition Assessment Toolkit: Principles. Version 4.0 (Volume I), https://www.oecd.org/en/publications/2015/06/competition-assessment-toolkit-operational-manual-version-3-0-volume-3_8801c8b8.html

20. Careful selection of parameters is essential to ensure that the calculation reflects the true public benefit, while maintaining prudence and data credibility. For example, in estimating the public benefit of introducing a ban on discrimination in food retailing, the following data sources are considered.:

- price effect – based on findings from the CC’s market monitoring, which revealed significant price differences between local and foreign suppliers. These findings suggest potential price discrimination, therefore a conservative estimate of 1.5% is used;
- demand elasticity – assumed to be low 0.3 – 0.5, which corresponds to the characteristics of the food market. This value supports a conservative estimate, as food products typically show limited consumer response to price changes;
- turnover – according to the Latvian food sector review, in 2022 the total value of food production was €2.5 billion, of which 42.5% was exported. This means approximately €1.44 billion worth of production remains in the domestic market. This figure is used as the basis for calculations, reflecting the turnover of locally produced food products

21. A toolkit-based approach not only allows for the quantification of short-term financial benefits but also illustrates the broader societal value of fairer and more transparent trade rules. It is particularly appropriate when the intervention is aimed at structural behavioural change rather than punishing individual violations.

22. Similarly to the UTPPL case, improvements in pharmaceutical price regulation in 2025 also provide an opportunity for *ad hoc* public benefit assessment. The amendments to the relevant legislation, which entered into force in 2025, introduce a new approach to drug pricing — including a clearer mark-up structure, a unified service fee, and more transparent principles.

23. These amendments take into account the findings of the CC’s market surveillances⁶, which identified mechanisms that restricted market operation and limited effective price competition. Although the CC did not directly initiate the amendments, its findings significantly influenced policy makers’ actions.

24. The public benefit in this case will also be assessed using the Toolkit methodology, identical to that applied in the UTPPL case.

25. Thus, the *ad hoc* assessments of the UTPPL and pharmaceutical pricing reforms complement the CC’s public benefit evaluation framework, offering a way to clearly demonstrate the value of policy improvements to society beyond traditional competition law enforcement.

4. Proposals and Future Development

26. The CC’s experience in public benefit assessment shows that Latvia has developed a practical, internationally aligned methodology based on global recommendations. It enables the quantification of the results of competition policy, particularly in cases where

⁶ Report on the Pharmaceutical Distribution Market Monitoring (2011), <https://www.kp.gov.lv/lv/media/532/download?attachment>, Medicine Pricing and Possible Competition Restrictions Affecting Financial Accessibility of Medicines (2019) <https://www.kp.gov.lv/lv/media/352/download?attachment> (pieejams latviski)

numerical data on market impact are available. Until now, the primary focus has been on direct intervention cases—mergers, prohibited agreements, and abuse of dominance.

27. In 2025, the CC will apply an *ad hoc* approach to assess the public benefit of regulatory improvements, such as the UTPPL amendments and pharmaceutical pricing reforms. This approach is based on the OECD Competition Assessment Toolkit recommendations, using an extended formula that also takes demand elasticity into account. It enables a clear demonstration of benefits even beyond traditional competition law cases.

28. To strengthen this approach and ensure its sustainability, the following measures are recommended:

- regularly review and update public benefit calculation assumptions and methodology in line with OECD and EU best practices;
- establish systematic cooperation with data holders to ensure access to high-quality and timely indicators;
- integrate *ad hoc* assessments as a permanent component of public benefit evaluation, especially following regulatory changes based on market monitoring;
- conduct ex post evaluations, where possible, to verify the accuracy of initial estimates compared to actual effects.

29. A question for future discussion is whether and how to calculate public benefit resulting from market monitoring activities, since such monitoring can lead to two types of follow-up actions:

- if signs of infringements of the Competition Law or the Unfair Retail Trade Practices Prohibition Law are identified, the CC initiates a case and carries out an investigation;
- if it is established that the successful development of competition in a sector is hindered by regulatory acts, the CC prepares and submits proposals to the relevant sectoral institutions for amendments to improve the competitive environment.

30. As a result, public benefit is calculated later — either when the infringement is prevented or when the regulatory amendments are implemented. To avoid double counting of public benefit, there is no need to calculate a separate benefit directly from the market monitoring itself.

31. This structured approach provides a comprehensive framework for assessing public benefit, helping the CC to demonstrate its added value to society and policymakers. It also allows for transparent communication of the institution's role and impact in promoting fair and effective competition.

32. By expanding the scope of benefit assessment to include both traditional enforcement and broader policy impacts, the CC strengthens its accountability and contributes to evidence-based policy development.