



Latvia is located in Northeast Europe, bordered on the North by Estonia and the Gulf of Riga; on the East by Russia; on the South by Byelorussia and Lithuania; and on the West by the Baltic Sea.

After nearly a half-century of Soviet rule, Latvia regained full independence in 1991 and rejoined the world community of sovereign countries. Since then, Latvia has had to cope with several difficult tasks, including the consolidation of independent statehood, the cultivation of democracy, and the transformation to a market economy.

Economy

Along with the consolidation of independence and the development of democracy, Latvia has embarked on the painful path towards a market economy.

In the 1980s, Latvia was fully integrated into the Soviet economic system. With the break-up of the Soviet Union, old economic links and production patterns were disrupted while new ones are still in the process of formation. Latvia is a country of enormous potential, rich in human and natural resources and taking advantage of its geographical location it has potential to become a major transit point for trade between the East and West. The successful introduction of Latvia's own currency, the Lat, has been completed, inflation has been controlled, and the economy has stabilised. As a result, Latvia is on the road to becoming a regional banking and financial centre.¹

Competition Law and Policy

The entering into force on January 01, 1998 of the competition legislation adopted by Parliament on June 18, 1997 was an outstanding step forward, made towards the alignment of Latvian legislation to EU competition law. This law in its basics was composed taking into consideration the European Community legislation. At the same time, its contents were influenced by the actual situation of the national economy of Latvia, national

PROFILE	
Population:	2.3 million***
GDP (Current US\$):	11.1 billion***
Per Capita Income: (Current US\$)	4,400 (Atlas method)*** 9,210 (at PPP)**
Surface Area:	64,600 sq. km
Life Expectancy:	70.9 years**
Literacy (%):	99.7 (of ages 15 and above)**
HDI Rank:	50***
Sources: - World Development Indicators Database, World Bank, 2004 - Human Development Report Statistics, UNDP, 2004 (**) For the year 2002 (***) For the year 2003	

competition protection policy as well as the law adopted on December 03, 1997, to be notified on December 31, 1997.

To fill up some gaps detected in the existing competition law, a new competition law was elaborated and adopted on October 04, 2001, which entered into force on January 01, 2002. This Law provided lower notification threshold in the cases of merger of enterprises.

In 2003, a Working Group for preparation of amendments to the competition law was created. It was necessary to align this law to the law on Structure of State Administration and the Law on Administrative Proceedings and to provide a special procedural order on how to apply substantial regulations of the competition law. At the same time, it was decided to correct the loopholes in the competition law discovered during application of the new law, to widen investigation powers of the Competition Council and to include legal regulations ensuring effective application of the EU competition legislation in Latvia. The law 'Amendments to the competition law' was adopted

* Original paper submitted in December 2004. Revised in August 2005 & April 2006

1 <http://hdr.undp.org>, visited on November 29, 2004.

by Saeima (the Parliament) on April 22, 2004 and entered into force by the May 01, 2004.

The competition law's objective is to ensure the opportunity for each market player to undertake economic activity under conditions of free and fair competition, and favourable conditions for the protection, maintenance and development of competition in the public interest, by restricting market concentration, terminating activities which are prohibited by the regulatory enactments regulating competition, and by taking action against the perpetrators within the procedures prescribed by the normative acts.

The enforcement of the competition law is with the Competition Council. The Competition Council reports to the Ministry of Economy, but the Ministry does not have the power to influence case investigations and decisions taken by the Council.

The competition law applies to market participants and to any form of registered and unregistered associations of market participants, to natural and state monopolies, as well as to other enterprises, which are in a monopoly position.

The competition law in Latvia is enforced by Cabinet Regulations setting out the procedure of reviewing violation of competition rules, of notification of agreements and mergers, and several exemptions from the prohibition of agreements, which currently are as follows:

- agreements entered into the field of domestic carriage by rail and by road; and
- liner shipping (consortia) agreements.

Competition Institutions

In accordance with the present competition law, the Competition Council and the Competition Bureau are the competition authorities. The Competition Council is the decision-making authority, while the Bureau constitutes the executive authority, which carries out investigations, prepares draft Council decisions and implements their execution.

The Competition Council acts in accordance with the competition law. The Council controls and supervises the market exercising its legal rights in order to ensure free and fair competition among market participants, monitors the observance of prohibition of abuse of a dominant position, unfair competition, agreements by market participants; monitors the compliance with advertising law, examines submitted notices of agreements, restricts market concentration by taking decisions in relation to mergers of market participants and co-operates, within the scope of its competence, with relevant foreign institutions.

The Competition Council is defined by the current competition law as a direct administrative institution. A team of five board members constitutes the Competition Council. The Cabinet of Ministers appoints the Chairperson and four members of the Competition Council for five years after getting recommendations from the Minister of Economy.

The Chairperson of the Council manages the budget of the Competition Council. The Competition Council's decisions are binding on all the market players, who do business in the Republic of Latvia. However, the aggrieved party can appeal against the decisions of the Competition Council in the district administrative court, within a period of one month after the decision has taken place.

The Competition Bureau is a structural unit of the Competition Council. The working and the supervision of the Bureau is overseen by the Director who is directly subjected to the authority of the Chairperson of the Competition Council. The Bureau performs secretariat and expert functions, prepares issues, documents and draft decisions for examination at meetings of the Competition Council, and implements the decisions taken by the Competition Council.

The organisational structure of the Competition Bureau has been made such that it would be possible to carry out tasks declared in the competition law and Law of Advertising. Currently, there are nine units in the Bureau – Legal Division, the First, Second, Third and Fourth Analytical Divisions, Unfair Competition and Advertising Division, Information and External Relations Division, Financial and Administrative Division, Record Keeping and Methodology Division.

The Legal Division and Analytical Divisions consider applications and investigate possible violations of law, prepare resolutions and decision projects. The Legal Division is also responsible for the elaboration of regulatory enactments and representation in courts; provides legal support of the institution. Analytical Divisions additionally carry out supervision of competition environment in sectors of the national economy.

The Information and External Relations Division coordinates co-operation with other national competition protection authorities and international organisations. It prepares reports on the performance of authority and informs the public about it. This Division supports other divisions of the Bureau with information necessary for their activities.

The Record Keeping and Methodology Division elaborates internal regulatory procedures and instructions necessary

for application of laws and for realisation of other functions of public administration. This Division performs functions of record keeping and a secretariat.

The Financial and Administrative Division provides economic management of the Competition Council.

Sectoral Regulation

Energy Sector²

The energy sector has importance in the national economy of Latvia. During the last years, government policy has centered on promotion of energy efficiency and conservation measures. Accordingly, a better utilisation of the existing potential for combined heat and power production, as well as a greater usage of indigenous energy resources and liberalisation of the energy market has been encouraged.

In accordance with this policy, the utilisation of the indigenous energy resources is an important priority, even because Latvia has substantial resources of hydro, peat and woody biomass. In fact, electricity generation is based on hydro and combined heat and power stations. The current urgent problems for the development of the energy sector are the following:

- streamlining of energy legislation;
- reliability of energy delivery;
- privatisation and restructuring of energy companies; and
- increase of energy efficiency.

Drafting of energy legislation continues, basically in two directions:

- harmonisation of laws and regulatory documents with the regulations of EU; and
- drafting of new laws and regulations in compliance with the requirements of external and domestic markets to develop power delivery service in the state.

Both public and commercial projects are implemented in the energy sector and several new projects should be worked out. The main projects, in line with the government's policy, are:

- construction of new, environmentally friendly power plants;
- increase of energy efficiency and energy saving;
- installation of co-generation equipments; and
- use of local energy resources.

Telecommunications Sector

The law on Telecommunications was enacted on May 04, 1993. It ceased to be in force with the adoption of new Law on Electronic Communications currently on October 28, 2004. According to this Law, the Ministry of Transport and Communications supervises communications (telecommunications and post) and information

technologies. The main tasks of the Ministry include matters pertaining to strategic policies, finance and regulation.

The main tasks of the Ministry of Transport and Communications in the electronic communications field are as follows:

- determine telecommunications industry development policy that defines industry targets in accordance with public interest and means of their achievement in the telecommunications sector;
- work out draft regulations of the Cabinet of Ministers, instructions and other legislative acts related to the procedure of import, projecting, building, installation and operation of means of radio communications telecommunications end equipment and to restrictions or prohibitions as to their use;
- work out draft normative acts regulating the telecommunications industry in order to execute the provisions of the present law and implement telecommunications development policy;
- determine general principles for financing of the Universal telecommunications service; and
- represent the State or delegate other state institutions within the assigned competence to represent the Republic of Latvia at international telecommunications organisations.

The main goals of the Law are to:

- promote the development of electronic communications across the entire territory of the Republic of Latvia;
- promote the development of competition in the electronic communications service market;
- enhance the development of new telecommunications services;
- set out legal relationships in the provision of telecommunications services; and
- ensure the protection of the interests of telecommunications service users, public telecommunications network operators and service providers in the conditions of an open market economy and enhance accessibility of universal telecommunications service.

Anticompetitive Business Practices

Agreements (contracts, co-ordinated actions and decisions by unions of undertakings) having as their purpose or consequence, the hindrance, restriction or distortion of competition is prohibited by the Latvian competition law. The Law also prohibits abuse of a dominant position. One of the tasks of the Competition Council set by the Law is to supervise merger procedure through reviewing notifications and permitting or prohibiting merger according to its further possible influence on the market. The Law contains also unfair competition prohibition clauses.

² <http://www.opet.dk/baltic/cases/enpol-Latvia.htm>

Box 81.1: Abuse of Dominant Position Penalised

The Competition Council received an application from 'the Association of Latvia's prophylactic medicine disinfections' where it was claimed that 'Hoetica – ATU' abused its dominant position in the market of waste management in Riga by offering allowances for waste disposal services in case clients agreed to sign agreement on services of disinfection etc. thus attempting to force out other enterprises engaged in supply of deratisation and disinfection services, from the market.

The Competition Council concluded that 'Hoetica – ATU', by granting allowances on management of hard waste services with the condition that client would enter also into agreement on services of disinfection etc., abused its market power in the concerned market in order to expand in the market of eradication and disinfections. The decision of the Competition Council was not appealed. 'Hoetica – ATU' paid the fine and fulfilled the legal obligation.

- grants practical aid to consumers in the event of disputes;
- protects consumers in legal proceedings;
- represents interests of consumers in the process of drafting legislation; and
- advises consumers on their rights and quality of goods.

Concluding Observations and Future Scenario

The basic element of any market economy is competition. However, in certain cases a market participant may undertake steps that would obstruct, restrict or deform competition in contradiction to public interest. Therefore, a competition law is necessary, to prevent anticompetitive activities from taking place.

The basic trends of Competition Law are:

- to detect and to prevent cases of restrictive agreements; and
- to prevent abuse of dominant position.

Competition Law of the Republic of Latvia is based on Articles 81 and 82 of European Community Foundation Agreement as well as on Regulation No. 139/2004 of the Council of January 20, 2004 on concentration control of enterprises and on Regulation No 1/2003 of the Council

Consumer Protection³

The law on Consumer Rights Protection was passed on March 18, 1999, to ensure that consumer can safeguard their rights. The law 'On Advertising' adopted on December 20, 1999, the law 'On Safety of Goods and Services' (2004) and the law 'On Liability for Deficiencies of Goods and Services' (2000) and other Cabinet of Ministers' regulations were the regulatory base for the protection of consumer rights.

On October 14, 2004, Cabinet of Ministers adopted the Basic Guidelines of Consumer Rights Protection Programme in order to define basic principles of consumer policy, goals and main courses of action to ensure high level consumer rights protection. These basic guidelines are developed in accordance with Consumer Policy Strategy 2003-2006 of European Commission. To implement the basic guidelines, Club for Protection of Consumer Interests participated in the drafting of the Consumer Rights Protection Programme for 2005-2007.

The Consumer Rights Protection Centre is the main responsible co-ordinating institution that supervises implementation of the consumer protection legislation; it acts under supervision of the Ministry of Economics. The Centre:

- reviews applications and complaints of consumers about compliance of purchased goods or services to agreements;

Box 81.2: Unfair Competition Cannot be Supported

The Competition Council investigated the application of the Bureau of Purchase Supervision on possible competition violations by Lemon Latvija Ltd. It was pointed out in the application that Binders Ltd. had made a complaint about 'Latvijas autoceļu direkcija' decision about reconstruction and renovation of asphalt in deciding to conclude purchase agreement, and had requested to evaluate whether Lemon Latvija had submitted a predatory price offer.

The Competition Council ascertained that Lemon Latvia was not in dominant position in the market of road engineering and reconstruction where it competed with Binders Ltd. competed, as well as other enterprises having licences.

Having investigated Lemon Latvija's activities in accordance with regulations of the Competition Law on unfair competition, the Competition Council concluded that the activities of 'Lemon Latvija' did not violate the customs of fair economic activities, because the extent of the activities, defining prices for services below prime cost could not influence free competition in the relevant market over a sufficiently long time period.

3 <http://www.consumer-guide.lv/english/guide.htm>

of December 16, 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty.

Since infringements of Competition Law often take place on an international scale, more attention should be paid to

international co-operation, and therefore one of the priorities of the Competition Council is building up contacts for international co-operation. It is envisaged, that international co-operation will continue and will be strengthened. The Competition Council participates in the programmes of the International Competition Network.

Suggested Reading

The Competition Council, Annual Report, 2001. <http://www.competition.lv/Alt/ENG/EFS.htm>

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