

## **Economic methods and concepts in the competition analysis of the new EU Member States: lessons from Latvia<sup>2</sup>**

### *Abstract*

In this article we review the current experiences of the Latvian Competition Council in the application of economic methods and tools in its competition practice, especially in the field of market studies and sector inquiries. This review is done on the general background of a more “economic” approach pursued by the European Commission in its competition policy. In line with this approach, the Latvian Competition Council has its own Chief Economist and aims to introduce more economic methods and tools into its everyday practice.

We review the market studies that were undertaken by the Latvian Competition Council in the recent years and summarize the major practical and theoretical techniques and methods that have been applied in those studies (such as e.g., analysis of barriers to entry, analysis of capacity restraints, price analysis, etc.). Generally, the Competition Council distinguishes between three types of industry and market monitoring: monitoring itself, market surveillance and research. The recent market studies have been undertaken in cement, fuel retail, dairy, bread, etc. markets. We also review the current informational/IT basis for internal procedures of circulation and treatment of analytical information in the Competition Council as well as its human qualifications for performing economic analysis.

We find that in general the Competition Council has little experiences with the application of empirical methods in its current practice. This may be to a certain degree attributed to the lack of necessary skills and education of case handlers and absence of any qualified statisticians/econometricians who could support the case handlers. In its turn this is linked to the rather unsatisfactory financial as well as technical and material resources of the Latvian Competition Council due to lack of adequate funding. The efforts of the Competition Council to use more advanced economic techniques are thus confronted with the lack of sufficient resources, both human and technical, in reality to implement those techniques.

Comparing the experiences of the Latvian Competition Council with those of the advanced and experienced competition agencies such as e.g., US and European Commission competition agencies, we develop recommendations for the improvement of theoretical and practical techniques and suggest methods for the selection and analysis of economic sectors and relevant markets by the Latvian Competition Council. We describe the major steps of conducting a market study and elaborate in more detail on practical and theoretical techniques and methods that may be used by the Competition Council in the implementation of a market study, depending on the focus of the market investigation. Furthermore, we suggest more general policy recommendations how to improve the current work and strengthen the economic capacity of the Latvian Competition Council. In particular, we suggest that the Competition Council must qualify its personnel, ask for and collect relevant data and utilize the available MS Office or equivalent programmes or if necessary more powerful programs for dealing with large amounts of data. Carefully designed and conducted market studies may help improve the image and reputation of the Latvian Competition Council in front of consumers and businesses. Finally, we try to generalize some policy implications that may be useful for competition authorities in transition economies and less experienced competition agencies around the world.

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