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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
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Competition and Inflation – Note by Lithuania

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This document reproduces a written contribution from Lithuania submitted for Item 12 of the 139th OECD Competition Committee meeting on 29-30 November 2022.

More documents related to this discussion can be found at
www.oecd.org/competition/competition-and-inflation.htm

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1. Introduction

1. This Note overviews advocacy efforts of the Lithuanian competition authority in the context of increased inflation rates.
2. First, it refers to the position of the Lithuanian Competition Council with regard to the role of competition policy while inflation rates in Lithuania have reached unprecedented levels in 2022. The competition agency argued that overall inflation in variety of products was not likely to be caused by restrictions of competition which could be remedied by the Competition Council. However, in general, competition policy can contribute to lower prices by addressing distortions of competition of private and public nature in particular markets.
3. Second, this Note discusses the experience of the Lithuanian Competition Council in advocating against price regulation in the beginning of COVID-19 pandemic in 2020, when it was feared that prices for most necessary products would reach unacceptable levels. The competition authority pointed out that price regulation may cause shortages of products and, in the longer period, even serious disruptions of national economy. Therefore, the Competition Council advised the Government to consider alternative means in reaching the goal of regulation.

2. Inflation and Advocacy on the Role of Competition Policy

4. In the period between April and September of 2022 inflation rate in Lithuania was one of the highest in the EU¹. Due to the unprecedent inflation, in June 2022, the Chairman of the Lithuanian Competition Council was invited to the plenary meeting of the National Parliament (Seimas) to present the position of the Competition Council regarding inflation. After the meeting of the Parliament, the Competition Council published a press release where the position expressed by the Chairman of the authority was summarised². This position is reflected below.
5. The competition authority has limited influence on the level of inflation because it acts at the microeconomic level by considering competition problems in particular markets. Meanwhile, in the period concerned prices suddenly rose in many sectors and there were no grounds to believe that this was due to restrictions of competition in all these sectors. Inflation is economy-wide phenomenon examined by macroeconomics after all. At the same time, in some cases price increases in particular markets may occur due to restrictions of competition and the competition authority has powers to fight or prevent them.
6. For example, during the enforcement proceeding against cartels of driving schools³, the prices for driving courses in two biggest cities in Lithuania dropped immediately after certain actions of the Competition Council were carried out (i. e. firstly, after conducting

¹ Annual inflation rates in Lithuania in 2022 were 16.6 % in April, 18.5 % in May, 20.5 % in June, 20.9 % in July, 21.1 % in August and 22.5 % in September. Source: [Eurostat](#).

² Press release in Lithuanian can be accessed [here](#).

³ Press release in English can be accessed [here](#).

the dawn raids and then after issuing the statement of objections). Prices of category B driver training in Vilnius went down from the cartelised price of 490 euros to the non-cartelised prices ranging between 349–450 euros.

7. Merger control is also relevant in preventing price increases due to restrictions of competition. Speaking of food markets, which saw one of the highest increases in inflation, a merger between two large supermarkets chains was blocked by the Competition Council in 2018⁴. If allowed, this merger would create or strengthen a dominant position or significantly restrict competition in some of the relevant local markets and could also lead to price increases. In this context, it is worth noting that recently the Competition Council blocked another merger in the food production sector⁵ preventing potential negative impact on competition in flour, flour mixtures and pasta markets.

8. Finally, higher prices in particular markets could also be caused by the state regulation. For example, the Competition Council had fined the Ministry of Justice for the violation of Law on Competition which consisted in setting fixed or minimum prices for notary services. According to the competition authority, the Ministry of Justice had restricted pricing of the notaries and thereby deprived consumers of the opportunity to be offered lower prices for notary services⁶.

3. Inflation and Advocacy on the Price Regulation

9. Sometimes at the periods of high inflation in Lithuania, policy makers propose to regulate prices of some products which typically are not regulated in market economy. The Lithuanian Competition Council considers that it is its task to warn the policy makers about potential risks of such initiatives.

10. For example, in 2020, in the beginning of the COVID-19 pandemic, the Lithuanian Cabinet of Ministers proposed an initiative to give the power to the Government to regulate prices of some most necessary products (goods and services). The Government argued that this power would help to manage potential price increases during the pandemic.

11. The Lithuanian Competition Council issued an opinion⁷ that price regulation could have caused even more serious problems than the ones which were supposed to be remedied. In addition, in the long run, it might have harmed the whole national economy. The competition authority stated that due to the price control local manufacturers could refuse to sell their products in Lithuania because prices would not cover the costs. Furthermore, imports could decrease for the same reason. Eventually, these disruptions could result in shortages of the most necessary products when they would not only be unavailable at low prices but would be unavailable at any prices. In the longer period, price regulation could also cause lower quality and more limited choices of products and services, as well as lower level of innovations.

12. The Competition Council proposed alternative methods to deal with potential perspectives of high prices. First, state support could be given for economic entities to invest into additional productive capacities necessary to produce the respective goods.

⁴ Press release in English can be accessed [here](#).

⁵ Decision of 26 August 2022 regarding Dobeles Dzirnavnieks/Baltic Mill. Press release in English can be accessed [here](#).

⁶ Press release in English can be accessed [here](#).

⁷ Press release summarising the opinion can be accessed in Lithuanian [here](#).

Second, regulatory barriers to enter the market could be removed or at least reduced, for example, by reducing time of granting licenses. These measures could have expanded the supply of the most necessary goods and thus prevented high prices.

13. The Cabinet of Ministers disregarded Competition Council's opinion and proposed the respective Law to the National Parliament which adopted the law. However, the President of Lithuania vetoed this Law. The Parliament agreed with the veto and refused plans to regulate wholesale and retail prices.

14. In its opinion on this matter, the Competition Council relied upon and referred to the OECD Competition Assessment Toolkit.