

Competition in terms of price is significantly restricted on the cigarette market

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After completion of a sector inquiry into the market of cigarette distribution, the Competition Council of Latvia (the CC) concluded, that companies have limited possibilities to compete in terms of price at wholesale and retail level. Since the regulatory framework stipulates, that manufacturers or importers of cigarettes shall determine a maximum retail price for products, retailers are restricted in determination of markup. Thus, the competition with final price is impossible.

For consumption in Latvia there are offered cigarettes of three international manufacturers – British American Tobacco, Japan Tobacco International and Philip Morris International. In 2014, several undertakings in Latvia had received a permit for manufacturing of cigarettes; however, the entire production was exported.

In 2014, three companies imported cigarettes in Latvia – the official representative office of Philip Morris International in Latvia, SIA Greis and SIA Greis Loģistika (Greis group), as well as SIA Baltic Sales Network (Sanitex group). Both Greis group and Sanitex group operate on the market also as wholesalers. Moreover, Sanitex group has a significant market power on this market and it offers cigarettes of two out of three largest cigarette manufacturers represented in Latvia. Consequently, the wholesale market is highly concentrated and its structure does not create conditions for intense competition.

During the sector inquiry, the CC identified high barriers, which prevent entering the market by new cigarette manufacturers and import suppliers. Among the most significant obstacles there are specifics of regulatory framework, high investment, marketing activities by importers represented in Latvia, as well as loyalty of consumers.

The regulatory framework stipulates, that manufacturers and importers shall determine the maximum retail price, which limits merchants in determination of markup. One third of retailers addressed by the CC admitted, that due to this reason they suffer loss from cigarette sales, which they have to compensate by increasing prices for other product groups.

While analysing cooperation of manufacturers or importers with retailers, the CC observed, that they ensure marketing activities, including advertising activities, volume discounts etc. Thereby, retailers have minimal motivation to look for other supply channels and cooperate with new cigarette manufacturers or importers.

At the same time, the CC detected, that some cooperation agreements include conditions, which motivate retailers to divide shelf space allocated for cigarettes in particular proportions among cigarettes of trademarks of three manufacturers. Although it does not affect determination of the final price for cigarettes, it still can cause excessively transparent operation conditions for competitors. Therefore, the CC has informed importers of cigarettes, that they are obliged to assess conformity of the existing cooperation conditions with requirements of the Competition Law.

Assessing habits of smokers, the CC observed, that customer loyalty for cigarette trademarks is particularly pronounced in the segment of high and medium price, so substitutability of these trademarks with other ones is lower than in the segment of low prices. Cigarettes of this price segment are most frequently acquired by consumers at fuel filling stations, whereas cigarettes of medium and low price segment – at retail sales places of daily consumption products.

Data for the period from 2009 to 2014 were analysed during the supervision of cigarette distribution market by the CC.

For media inquiries

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<https://www.kp.gov.lv/en/article/competition-terms-price-significantly-restricted-cigarette-market>