Market Studies in Moldova

Ion Maxim
Vice President, Competition Council of the Republic of Moldova

Diana Rusuhanu
Head of Research and Analytics Department Competition Council of the Republic of Moldova

The Competition Council of the Republic of Moldova conducts market studies in order to gain in-depth knowledge of markets and identify malfunctioning or competitive risks, as well as to issue recommendations for improving the competitive environment.

One of the competition authority's most important tasks and key to efficient and fruitful market studies is the selection of the economic sectors to be investigated. Given that both human and time resources are limited, a complex and exhaustive approach is required to select the correct market to study. It is necessary to select those sectors that are of particular importance for the national economy and that show signs of a possible distortion of competition.

Based on these concerns, the Competition Council has developed and implemented a methodology for monitoring the integrated risk indicator of competition distortion, an indicator calculated annually based on statistical information at an economic sectoral level. The integrated risk indicator is based on the structure-conduct-performance model, according to which the competitive environment has a direct impact on market structure, which in turn influences the conduct of enterprises in the market and so affects the performance of the economic sector.

The integrated risk indicator is designed to function as a preliminary scanning tool for all sectors of the national economy in order to identify those sectors that are at increased risk of distorting competition. As the value of the integrated risk indicator is insufficient in any examined sector, the Competition Council requires further analysis of its specifics and developments so it can make findings on the state of competition in that sector of the national economy. While there are risks to competition if an economic sector has a high-value integrated risk indicator, this does not automatically mean that it is suffering from competition distortion. At the same time, a low value of the integrated risk indicator does not exclude the existence of risks or competitive problems.

The first stage of the procedure for determining the integrated risk indicator is the calculation of nine relevant indicators for each economic sector.

1) Total turnover and

2) total assets reflect the importance of the examined sector for the national economy. The value of these indicators reflects the share of the economic sector in GDP and its production capacity. Sectors with higher values of these indicators will receive a higher score in the final calculation.

3) Total number of enterprises;

4) coefficient of variation of sales revenues;

5) coefficient of asset variation are indicators that reflect market structure.

The **total number of enterprises** in the economic sector is determined by totalling the active enterprises that generated revenue in the previous year. A large number of enterprises active in the market may mean a lower level of concentration and a more competitive situation.

The **coefficient of variation of sales revenue** is a dimensionless parameter that reflects the degree of heterogeneity and concentration of an economic sector depending on the sales revenue generated by enterprises. A lower value of the sales revenue coefficient produces a higher Herfindahl-Hirschman Index (HHI) market-concentration score, and an unfavourable competitive environment. An increased coefficient of variation of sales revenue means an intensification of competition in a sector, whose structure becomes less uniform. At the next stage, a higher score is given for small values of the coefficient of variation of sales revenues, and a lower score will for high values.

The **coefficient of asset variation** in a given economic sector reflects the degree of its heterogeneity, depending on the production capacities held by enterprises. The existence of an obvious leader in production capacities means an increased risk of distortion in the competitive environment. High values of the coefficient of variation of assets lead to a higher score, and vice versa.

6) Relative change in the number of enterprises compared to the previous year;

7) relative profitability; and

8) relative change in average labour productivity.

The **relative change in the number of active enterprises compared to the previous year** reflects recorded inflows and outflows in the examined sector. The increase over time in the number of enterprises active in a given economic sector is favourable for competition in this sector, and leads to a low score. Companies exiting the market and a decrease in their number reflect an unfavourable competitive environment, and so lead to higher score.

Relatively high values of **profitability** in one economic sector compared to others may be a sign of low effective competition between companies, which means a high score. Relative changes in labour productivity are an indicator of the efficiency of resource use. Competition stimulates productivity growth. The increase in labour productivity over time in an economic sector is a sign of intensified competition, and so scores lower.

The final indicator is

9) the importance of the economic sector for consumers. This is determined by calculating the share of each category of expenditure in the total average monthly consumer expenditure per person.

Series of structured data – with significant variability – are obtained for each of the nine indicators; these represent the values of the indicator for each of the sectors of the national economy. As the data series obtained are not homogeneous, the results need to be translated so they can be quantified by assigning points, in order to aggregate them into an integrated risk indicator.

For this next stage, each economic sector a score is given a value of between one and seven, depending on 1) the correlation between the calculated indicator and the risk of distorting the competitive environment, and 2) how the calculated indicator for this economic sector is positioned against this indicator's minimum, average and maximum values registered at the level of national economy.

As a rule, a higher score is given to economic sectors of particular importance to the national economy and to consumers, or those that present an increased risk of distorting the competitive environment.

Finally, as an aggregate indicator, the integrated risk indicator for each economic sector is determined by totalling the sectoral scores for each of the 9 relevant indicators. After calculating this figure, the final ranking is elaborated and published in a table in which all economic sectors are presented according to the Classification of Activities in the Moldovan Economy (CAEM) sorted in descending order depending on the obtained value of the integrated risk indicator.

The experience of the Republic of Moldova has shown the practical application of this methodology and that assigning priority levels to economic sectors depending on the integrated risk indicator can be an effective method of identifying economic sectors that should be studied in more detail by the competition authority.

For example, chemical trading has been identified and selected for study as a sector with a high risk of distorting the competitive environment following the calculation of the integrated risk indicator based on available statistical data for previous years. In 2019, a study of the chemical market was initiated, in particular to examine the retail market for phytosanitary products and fertilisers. The market study determined that the characteristics of this particular market in Moldova showed a possible distortion of competition. Following a more detailed examination of offers submitted to agricultural producers, the Competition Council also found that there were signs of an anticompetitive agreement concerning the marketing of phytosanitary products and fertilisers by the main market players.

As a result, an investigation was launched in 2020 into signs of anticompetitive agreements, revealed by price fixing, in the phytosanitary products and fertiliser market. The investigation ended in March 2021 with the discovery of a violation and the largest cartel ever detected by the Competition Council: four companies directly and indirectly had established and fixed sales prices and other trading conditions when trading Bayer and Belchim branded phytosanitary products and fertilisers with third parties in Moldova over the period 2015-2020. This finding resulted in the Competition Council imposing perhaps the largest administrative fine ever in Moldova: the four enterprises were fined a total of EUR 4.4 million for participating in hardcore horizontal cartel agreements.

The investigation uncovered direct evidence that demonstrated communications between the companies fixing prices and certain conditions for the trading of phytosanitary products to agricultural enterprises in the country. These cartel agreements raised prices, which were found to be 28-43% lower in Romania and Ukraine than in Moldova. Consumers had been forced to buy agricultural products at higher prices, and domestic agricultural products had become less competitive.

Given the results obtained from this process of selecting potential markets studies based upon sectoral screening of the national economy according to risk criteria, the Competition Council will continue to use this tool in planning its activity, including taking into account its future development and improvement.