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**DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE**

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**ROUNDTABLE ON FIDELITY REBATES**

-- Note by Latvia --

**15-17 June 2016**

*This document reproduces a written contribution from Latvia submitted for Item 6 of the 125th meeting of the OECD Competition Committee on 15-17 June 2016.*

*More documents related to this discussion can be found at  
<http://www.oecd.org/daf/competition/fidelity-rebates.htm>*

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## LATVIA

1. Analysis of fidelity rebates within the meaning of the background paper differentiates between loyalty rebates and quantity rebates.
2. Loyalty rebates are conditional on the customer demonstrating loyalty in the purchases of the dominant product. Loyalty rebates are individualized upon customers' full or close to full purchase capacity of the relevant product. Capacity will have an upward annual trend, increasing from year to year. To exploit benefits of the loyalty rebate and saturate capacity of the customer to the fullest extent, a dominant company may offer several rebates, increased within a very small increases of the additional volume purchased and disproportional to the volume purchased. E.g., the customer may double the rebate for the whole annual volume purchased, if it buys additional 5-10% of the whole volume.
3. Quantity rebates, on the other hand, reflect efficiency gains of the dominant company stemming from larger production quantities and sales, which are passed on to its customers in the form of lower prices per additional unit produced and sold. Quantity rebates are not conditional on loyalty of the customers or their individualized purchase capacity.
4. The Agency will look closely on the rebate scheme applied by a dominant company, where it is based on the on the amount of purchases individualized to full or near full capacity of the customers. Rebates applied by the incumbent should not be individualized between its customers, as it may lead to applying different levels of rebates to equal volumes bought, difference being whether that volume is close enough to the individual purchase capacity of a given customer.
5. The very presence of the company, enjoying a dominant position, weakens the market. Therefore conditions under which the company sells the dominant product should be based on the superiority demonstrated by the dominant product and efficiency gains offered by larger volumes produced and sold. Rebate policy should be decoupled from artificial incentives that influence behaviour of the buyers beyond the superiority of the dominant product and efficiency gains reflected by a quantity rebate. Individualized loyalty rebates based on the purchase capacity of the customers will most likely go beyond objective necessity and may trigger a presumption harm on part of the Agency.
6. Incentives based on the purchase pattern and capacity of the customers may alter competitive structure of the market to an extent, that rivals may not penetrate the market. Rivals have to outweigh to customers the risk of losing the rebate, which is conditional on the whole volume sold by the dominant company. To generate a comparable financial incentive from whatever market share left open for rivals is close to impossible. Altering competitive structure of the market would not normally attract necessity to assess effectiveness of the rivals.
7. The Agency has to refrain from commenting its enforcement practice, because there is an ongoing investigation into the rebate scheme of a dominant company. Apart from the pending investigation, the Agency has not assessed loyalty rebates in the past 10 years.